BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	)	DOCKET UG-210755

POST-HEARING BRIEF OF THE

ALLIANCE OF WESTERN ENERGY CONSUMERS

July 1, 2022

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I. INTRODUCTION

1. Pursuant to the Prehearing Conference Order dated March 11, 2022, and as discussed at the evidentiary and settlement hearing on June 1, 2022, the Alliance of Western Energy Consumers ("AWEC") submits this Post-Hearing Brief.

2. Cascade Natural Gas Company ("Cascade") originally requested an overall rate increase of $13.7 million, or 11.11 percent. After the Parties participated in a settlement conference on February 7, 2022, Commission staff ("Staff") and Cascade (collectively the "Settling Parties") notified the Commission on February 18, 2022, that they had reached a Full Multi-Party Settlement. The Full Multi-Party Settlement was reached a month before Intervenor Response testimony was due on March 15, and nearly two months prior a second settlement conference scheduled for April 5, resulting in a protracted procedural schedule intended to "expedit[e] the process and the effective date of rates."[1]

3. The Full Multi-Party Settlement Full, if approved, increases revenue by approximately $10.7 million, or 8.64 percent.[2] According to Cascade, this case is intended to be a "stop gap measure to help reduce the regulatory lag primarily caused by its 2020 capital investments and to bridge the gap to complete a comprehensive rate case either late in 2022 or 2023."[3]

4. All the consumer groups involved in this docket—Public Counsel, The Energy Project ("TEP"), and AWEC—oppose the Full Multi-Party Settlement. Public Counsel argues that "the proposed settlement does not comply with the law because it is excessive and would give

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[1] Order 07 ¶ 9.
[2] Full Multi-Party Settlement ¶ 9 (Mar. 22, 2022).
[3] Chiles, Exh. MAC-1T at 3:8–10.

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Cascade an annual revenue increase that is unreasonably large and that it is not justified."[4] TEP similarly opposes the Full Multi-Party Settlement because it "will unreasonably increase customers' rates [, and] many low income customers cannot afford such an increase."[5] AWEC agrees with Public Counsel and TEP: the Washington Utilities and Transportation Commission ("Commission") should reject the Full Multi-Party Settlement because it "will not produce rates that are fair, just and reasonable."[6]

5. Despite repeatedly characterizing this case as limited issue rate filing—Cascade seeks a significant rate increase from its Washington customers, meriting scrutiny to determine if rates are fair, just, and reasonable. Accordingly, based on the evidentiary record, the Commission should reject, or accept with modifications, the Full Multi-Party Settlement. Based on AWEC's analysis and proposed rate adjustments, AWEC recommends that the Commission approve a margin revenue requirement increase of no more than $1,533,053, or 1.21 percent.

II. STANDARD OF REVIEW

6. The Commission is charged with determining that rates, charges, regulations, practices or contracts of jurisdictional utilities are just and reasonable.[7] When considering a settlement, the Commission can only approve a settlement "if it is lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the commission."[8] Thus, the Commission is not bound by the terms of a settlement and must adjudge the reasonableness of that settlement under its statutory standards.

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[4] Paisner, Transcript, Volume 5 ("TR") at 17:16–20.
[5] Zakai, TR at 19:22–25.
[6] Stokes, TR at 19:11–12.
[7] RCW 80.28.020.
[8] WAC § 480-07-750(2).

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7. As the proponents of the Full Multi-Party Settlement, the Settling Parties bear the burden to provide "supporting documentation sufficient to demonstrate that the settlement is consistent with the law and the public interest."[9] Moreover, as the petitioner seeking to modify existing rates, Cascade bears an additional burden of proof to justify the requested rate change.[10] Non-settling parties, such as Public Counsel, TEP and AWEC in this proceeding, have the right to offer evidence and arguments in opposition, and retain express rights.[11]

8. Further, the Commission's decision must be established based on due process of law.[12] The Commission must resolve the issues in this case as contested matters on the basis of the record before it while determining whether it will accept, reject, or modify a multiparty settlement.[13] In accomplishing this resolution, "the Commission weighs the evidence offered in support of the common positions advocated by the settling parties against the evidence opposing the results advocated by the settling parties, and evidence offered by non-settling parties in support of the alternative results that they advocate."[14] Finally, the Commission's decision on "[e]ach contested issue is [to be] decided on its merits considering the full record."[15]

III. ARGUMENT

9. Cascade has failed to meet it burden of proof demonstrating that its proposed rate increase is justified and would result in fair, just and reasonable rates. Similarly, the Settling

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[9] WAC § 480-07-740(3).
[10] WAC § 480-07-540.
[11] WAC § 480-07-740(3)(c).
[12] *Mathews v. Eldridge*, 424 U.S. 319 (U.S. 1976).
[13] *In re Puget Sound Energy*, Dockets UE-121373, UE-121697/UG-121705, and UE-130137/UG-130138, Order 06 and 07, Order Rejecting Multiparty Settlement ¶ 17 (Jun. 25, 2013).
[14] *Id* at ¶ 20.
[15] *Id.*

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Parties have failed to provide "supporting documentation sufficient to demonstrate that the settlement is consistent with the law and the public interest."[16] AWEC recommends that the Commission either reject or modify the settlement and approve a margin revenue requirement increase of no more than $1,533,053, or 1.21 percent. A summary of AWEC's proposed revenue requirement adjustments and recommendations is as follows:

Table 1
AWEC Revenue Requirement Recommendation
Whole Dollars

1	**Multi-Party Settlement**		**10,692,992**
2	% of Margin		8.64%
3	**Adjustments**		
4	A1	Capital Strucutre	(754,842)
5	P-2	Unbilled Revenues	(1,413,568)
6	R-3	EOP Depreciation	(2,870,960)
7	A2	Uncollecible Accounts	(81,503)
8	A3	Working Capital	(121,687)
9	A4	COVID Contra Revenue	(664,467)
10	R-6	Board of Directors' Expense	(6,258)
11	A5	Protected EDIT	(2,127,568)
12	A6	CRM Over Collection Amort.	(1,128,100)
13	P-1	Interest Coordination	9,012
14	Total Adjustments		**(9,159,939)**
15	**Adjusted**		**1,533,053**
16	% of Margin		1.21%

- *A1 – Capital Structure*: AWEC recommends using a 53% debt, 47% equity capital structure.
- *P-2 – Unbilled Revenue*: AWEC recommends removing unbilled revenue accrued in the test period from the normalized revenue forecast.

[16] WAC § 480-07-740(3).

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- *R-3 – Depreciation Expense:* AWEC recommends using actual 2020 depreciation expense, recognizing the inaccuracy of Cascade's calculations and inconsistencies from using the 2021 depreciation expense.

- *A2 – Uncollectible Accounts:* AWEC recommends using bad debt expense calculated over the three-year period 2016-2018.

- *A3 – Working Capital:* AWEC recommends removing cash from, and adjusting the jurisdictional allocation factor used in, the investor supplied working capital calculation.

- *A4 – COVID Contra Revenue:* AWEC recommends removing contra revenues related to operating expense savings deferred in Cascade's COVID regulatory account.

- *R-6 – Directors' Expense:* AWEC recommends removing corporate memberships and dues included in Directors' expense prior to the application of the 50% adjustment in the Settling Parties' calculation.

- *A5 – Protected-Plus Excess Deferred Income Taxes:* AWEC recommends including protected plus excess deferred income taxes in base rates, based on the test year levels, and terminating Schedule 581.

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

A. Cascade Has Not Met Its Burden of Proof and The Commission Should Reject Or Modify The Full Multi-Party Settlement.

10. Cascade failed to present evidence that its proposed rate increase would result in rates that are fair, just, and reasonable. Accordingly, the Commission should reject the Full Multi-Party Settlement. Alternatively, if the Commission is inclined to approve the Full Multi-Party Settlement, it should do so with the modifications suggested by AWEC and other parties as discussed below.

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B. The Commission Should Revise Cascade's Capital Structure to Reflect Cascade's Actual Capital Structure.

11. The Commission should revise Cascade's hypothetical capital structure to reflect Cascade's actual test period capital structure to better balance the interests between shareholders and ratepayers. The Commission has described this balance as follows:

> A central tenet of ratemaking is that a Company's capital structure must strike an appropriate balance between safety and economy. In other words, the capital structure must contain sufficient equity to provide financial security, but no more than necessary to keep ratepayer costs at a reasonable level.[17]

The Multi-Party Settlement and the supporting testimony, however, do not discuss the reasonableness of Cascade's cost of capital, which by default means that the Settling Parties used the cost of capital in Cascade's filed case. Cascade's filed case assumed a cost of debt of 4.54%, a cost of equity of 9.40% and a capital structure ratio of 50.9% debt to 49.1% equity, resulting in an overall cost of capital of 6.93%.[18] Cascade's cost of capital was generally consistent with Cascade's 2020 General Rate Case ("GRC"), Docket No. UG-200568, with one exception—Cascade adjusted its debt cost for a known 2022 debt issuance.

12. Cascade's new debt issuance, coupled with the fact that Cascade is also continuing to pay dividends out to its sole shareholder— Montana-Dakota Utilities ("MDU"), changes its capital structure. It would not be appropriate to include Cascade's new debt issuances in this filing and ignore the impact of those debt issuances on Cascade's capital structure.

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[17] *WUTC v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 39 (Mar. 25, 2011).

[18] AWEC does not oppose the use of a 9.40% return on equity, or Cascade's proposed cost of debt, including the new debt issuance.

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13. In Cascade's 2020 FERC Form 2, in the notes to its financial statements, Cascade stated that its "ratio of total debt to total capitalization at December 31, 2020, was 53 percent."[19] In response to Bench Request 04, Cascade confirmed that its actual capital structure "was 53.0 percent debt."[20]

14. The Commission typically uses a hypothetical capital structure. Notwithstanding, it is not necessary for the hypothetical capital structure to ignore and be entirely divorced from a utilities' actual capital structure. Rather, it is appropriate for a utilities' actual capital structure and actual financing cost to inform what a proper hypothetical capital structure should be—balancing the interest of ratepayers and shareholders.

15. Cascade has complete control over its capital structure, which is dependent on, among other things, the amount of debt it issues and the amount of dividends issued to its parent MDU. A rational utility will not reduce its actual equity to a level below that which it finds to be sufficient.[21] Therefore, using Cascades actual test period debt and equity percentage will result in a capital structure with sufficient equity to provide financial security, while keeping ratepayer costs at a reasonable level.[22]

16. Cascade opposes AWEC's recommendation and recommends the capital structure be maintained at the ratio of 49.1 percent equity and 50.9 percent long-term debt, which is the same capital structure approved in the Company's last two general rate cases.[23] But the fact that the Commission approved a particular capital structure in the past doesn't mean that maintaining the

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[19] Mullins, Exh. BGM-4 at 9 (Cascade Resp. to AWEC DR 063).
[20] Cascade Resp. to Bench Request 004 at 2.
[21] Mullins, Exh. BGM-1T, at 9:14–15.
[22] *Id.* at 9:16–18.
[23] Chiles, Exh. MAC-4T at 4:9–19.

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same capital structure is a given, especially when Cascade is intentionally operating at a different capital structure than previously approved. Using a capital structure comprised of 53.0% debt and 47.0% equity fairly balances the interest of shareholders and ratepayers, and results in a $754,842 reduction to revenue requirement.

17. In response to Bench Request 04, Cascade attempts to draw a distinction with respect to its actual 2020 debt percentage by stating that it was influenced by "abnormally high unrecovered purchased gas costs due to the Enbridge incident."[24] This distinction, however, is unpersuasive, since Cascade's sole shareholder, MDU, is subject to the risk of such events and is responsible for ensuring that the business is adequately funded with equity in light of such events. This distinction is also irrelevant, because Cascade has not provided any evidence demonstrating that the 2020 debt percentage was abnormal, or that its parent subsequently made an equity infusion to correct the abnormality.

18. To the contrary, Cascade acknowledged in the hearing that it has continued to issue more debt than expected subsequent to the test period.[25] On June 15th, 2022 Cascade issued $50,000,000 of additional debt, in contrast to the $35,000,000 that was considered in its filing.[26] Accordingly to Cascade, this larger debt issuance was driven by market conditions in which, much like the case of the Enbridge incident, "gas prices have been significantly higher than what [Cascade] would have anticipated."[27] Thus, the impact of the Enbridge incident on Cascade's debt percentage was not necessarily abnormal.

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[24] Cascade Resp. to Bench Request 004.
[25] Nygard, TR at 102:13–103:7.
[26] *Id.*
[27] Chiles, TR at 71:13–15.

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19. Cascade has also not provided any evidence that its sole shareholder subsequently funded additional equity to reduce its debt ratio. In Bench Request 04 (b), for example, Cascade was requested to provide its "debt percentage for 2020 including the 2022 debt issuance and equity infusions."[28] In response, Cascade provided its debt and equity percentage from its "2022 Plan."[29] Cascade's 2022 Plan, however, is irrelevant and unresponsive to Bench Request 04 (b), since Cascade's actual capital structure will likely vary from the amount planned. Further, Cascade did not provide any supporting workpaper detailing actual equity infusions that would lead to its planned result. Since Cascade has provided no evidence of any actual equity infusions that would reduce Cascade's debt percentage below the 2020 level, the 2020 debt percentage of 53% is the most appropriate value to use in revenue requirement in this case, regardless of the impacts of the Enbridge incident.

C. Unbilled Revenue Accrued In The Test Period Must Be Removed From The Normalized Forecast.

20. The Multi-Party Settlement fails to account for Unbilled Revenue, and as a result, unreasonably and artificially inflates the revenue requirement advocated by the Settling Parties. In response to AWEC's proposed Unbilled Revenue adjustment, Cascade argues unpersuasively that "Cascade's treatment of unbilled revenues is the same in this case as it was in Docket UG-200568."[30] The fact that the Commission approved a particular treatment of unbilled revenues in the past, however, does not relieve Cascade from its burden to show that the rates in this proceeding are fair, just, and reasonable.

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[28] Cascade Resp. to Bench Request 004.
[29] *Id.*
[30] Chiles, Exh. MAC-4T at 6:8–9.

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21. The impact of unbilled revenue on a utilities' overall revenue is driven by several factors. In a static scenario, where a utility's loads are flat and its rates unchanging, unbilled revenue will have zero impact on a utility's overall revenue.[31] But, in a scenario where the utility revenue is increasing, either due to increase loads and/or increased rates, the unbilled revenue provision accrued in December of a given calendar year will potentially be higher than the unbilled revenue provision from December of the prior calendar year, resulting in a net increase to revenue. In a scenario where utility revenue is decreasing, unbilled revenue potentially results in a reduction to overall revenue.[32]

22. In this case, Cascade's revenue requirement has been inflated for unbilled revenue. As explained by Brad Mullins:

> From the Settling Parties' revenue requirement model provided in "210755-JOINT Exh-JT-2-3-22-22.xlsb", Excel Tab "Exh IDM-2, Proof of Revenue", the unbilled revenue amounts may be observed in column (d).[33] The sum of these amounts equals a $2,129,998 reduction to overall revenue in the test period. This means the unbilled revenue provision in December 2021 was less than the unbilled revenue in December 2020.[34]

23. The $2,129,998 referenced above, after removing the decoupling deferral and supplemental schedules, equals Cascade's corrected calculation of $1,413,568 for the amount of unbilled revenues included in revenue requirement.[35] While Cascade reversed, and deducted, the portion of the unbilled revenue related to the decoupling mechanism deferral and supplemental

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[31] Mullins, Exh. BGM-1T at 11.
[32] *Id.* at 12.
[33] The sum of the current months unbilled revenue provisions in the test period bear the title "Current Month Unbilled +", or "+CM CA1501A". Similarly, the reversal of the prior months unbilled revenue provisions bear the title "Previous Month Unbilled –" or "-PM CA1501A."
[34] Mullins, Exh. BGM-1T at 12.
[35] Chiles, Exh. MAC-4T at 7:15-8:14 (Errata).

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schedules, Cascade acknowledged that $1,413,568 of negative unbilled revenues remained in margin revenue requirement.[36]

24. To avoid confusion, it is necessary to recognize that unbilled revenues can be negative or positive amounts. The total amount of unbilled revenues in the test period initially reported in Exhibit IDM-2, including decoupling and supplemental schedules, was negative (-)$2,129,998.[37] The amount of decoupling unbilled revenues, which were removed from revenue requirement, was positive $776,556.[38] In contrast, the amount of supplemental schedule unbilled revenues, which Cascade identified as being removed from revenue requirement in its Rebuttal Testimony, was negative (-)$1,492,986.[39] Thus, after considering the respective unbilled revenue adjustments Cascade did make, the remaining amount included in margin revenue requirement was $1,413,568. This calculation may be found in Table 2 below.

Table 2
Components of Unbilled Revenue in This Proceeding

Unbilled Revenue Component	Amount $	Source	Dispostion in Settlement
Margin Unbilled Revenues	(1,413,568)	MAC-4T at 7:15	Remaining In Rev. Req.
Decoupling Mechanism Unbilled Revenues	776,556	BGM-1T at 13:10	Removed From Rev. Req.
Supplemental Schedule Unbilled Revenues	(1,492,986)	MAC-4T at 7:9	Removed From Rev. Req.
Total Unbilled Revenues in IDM-2	(2,129,998)	BGM-1T at 12:18	

25. There is agreement that Cascade's margin revenue requirement includes $1,413,568 of negative unbilled revenue, inclusive of the impact of the adjustments for the decoupling mechanism deferral and supplemental schedules, discussed above.[40] There is no agreement,

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36 *Id.*
37 Mullins, Exh. BGM-1T at 12:18.
38 *Id.* at 13:10.
39 Chiles, Exh. MAC-4T at 7:9.
40 Chiles, Exh. MAC-4T at 7:15-8:14 (Errata).

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however, as to the proper treatment of this amount. AWEC recommends that these negative unbilled revenues be removed from revenue requirement because the billing determinants that Cascade uses to develop revenue requirement are normalized.[41] Cascade's billing determinants are already representative of revenue recognized on an accrual basis (*i.e.*, based on volumes consumed), and not based on the timing of invoices like unbilled revenues.[42] The revenue that Cascade assumes in its revenue calculation is also normalized based on currently effective rates, with no assumed rate changes over the course of the normalized period.[43]

26. At the evidentiary hearing, Cascade's witness did not know whether the billing determinants Cascade uses were based on volumes consumed (*i.e.,* an accrual basis) or volumes billed.[44] Cascade acknowledged that there are "a lot of variables to factor into unbilled revenues" and was unable to identify a way to estimate whether Cascade's total unbilled revenue balance will increase or decrease on a normalized basis.[45] Cascade acknowledged that unbilled revenues are influenced by rate changes in the period and that the whole point of a normalized revenue forecast is to eliminate the impact of rate changes in the test period.[46] Cascade also acknowledged unbilled revenues are impacted by non-normalized year to year changes in throughput, due to customer growth and weather, factors that are typically normalized in revenue requirement.[47] Cascade also acknowledged that, if loads are increasing due to expected customer growth, unbilled revenues will actually reduce revenue requirement, rather than increase revenue

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41 Mullins, Exh. BGM-1T at 15:3-19.
42 *Id.*
43 *Id.*
44 Chiles, TR at 39:10–15.
45 *Id.* at 40:25–41:23.
46 *Id.* at 41:24–42:12.
47 *Id.* at 42:13–18.

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requirement as a result of negative unbilled revenues included in margin revenue requirement as seen in this case.[48]

27. Further, the timing difference between when the revenue is accrued and when it is billed are recovered as a component of net working capital.[49] The Settling Parties' workpapers already includes working capital of $15,909,204 associated with unbilled revenues.[50] Cascade acknowledged that AWEC is not proposing to remove the $15,909,204 balance of unbilled revenue included in working capital.[51]

28. Cascade's only defense for not removing the negative unbilled revenues was consistency. Cascade's witness stated, for example, that, "from a consistency standpoint, […] it makes sense to me that we would go ahead and include that as we have in the past."[52] This line of reasoning, however, is unsound. Just because something has been done a certain way in the past does not make it correct. The evidence in this case conclusively demonstrates that the correct treatment is to remove the remaining $1,413,568 in negative unbilled revenue from the Settling Parties' revenue requirement as a normalization adjustment. This amount already includes the impact of removing the decoupling and supplemental schedule amounts as shown on Table 2 above.

D. Calendar Year 2020 Depreciation Expense Is the Most Accurate Information Available For Calculating Revenue Requirement.

29. Calendar Year 2020 depreciation expense is the most accurate information available in the record for calculating revenue requirement. Cascade's "limited" issue rate case contained

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48 *Id.* at 42:19–43:3.
49 Mullins, Exh. BGM-1T at 16:1–5.
50 *See* Joint Parties, Exh. JT-2 workpaper, Tab "Working Capital (AMA)," cells "U172:U181."
51 Chiles, TR at 40:8–16.
52 *Id.* at 62:13–16.

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significant errors, including errors related to depreciation expense. While the Full Multi-Party Settlement attempted to address some of these errors, the settlement does not go far enough and raises other inconsistencies as discussed below. Accordingly, AWEC recommends that the Commission require Cascade to use actual 2020 deprecation expenses to address Cascade's inaccurate calculations and the inconsistencies from using the 2021 depreciation expense.

30. In its initial filing, Cascade proposed a pro forma adjustment, which it described as an EOP depreciation adjustment. In this adjustment, Cascade calculated the end of period plant balances for each FERC account. Cascade subsequently applied the approved depreciation rates from Docket UG-200278 to each of the plant balances, to arrive at a total depreciation expense of $32,122,418.[53] Based on this original calculation, Cascade erroneously proposed a pro forma adjustment increasing depreciation expense by $5,611,307, an increase of 21.2%.

31. The magnitude of the increase that Cascade had proposed with respect to depreciation expenses was a prominent issue in the case from AWEC's perspective. Through AWEC's investigation of this adjustment, multiple errors in Cascade's calculation were discovered. In response to AWEC Data Request 05, for example, Cascade identified an error that overstated depreciation expenses by $1,100,000 related to the way that depreciation expenses for transportation equipment was being classified.[54] After this, and a few other corrections to its adjustment, as described in the response to AWEC Data Request 05, Cascade revised its calculation of pro forma depreciation expenses to $31,038,617, still a $4,527,507 or 17.1% increase from the test period.

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[53] This original calculation may be observed in the workpaper version of Settling Parties, Exh. JT-2 in Excel Tab "EOP Depn Exp Adj."

[54] Mullins, Exh. BGM-4 at 2–3 (Cascade Resp. to AWEC DR 005).

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32. Then, in response to AWEC Data Request 67, Cascade provided its actual results of operations for calendar year 2021. Based on that response, Cascade only incurred $28,455,361 in depreciation expenses in 2021, which was just $1,944,251 higher than the depreciation expense incurred in 2020. Since part of the increase in 2021 was attributable to new plant additions that were not included in Cascade's EOP rate base calculation, it became apparent that there were gross inaccuracies in the depreciation expenses assumed in Cascade's filing, even considering the corrections Cascade identified in response to AWEC Data Request 5. While Cascade argues that the "Full Multi-Party Settlement already addresses and incorporates AWEC's concern",[55] AWEC does not agree.

33. Paragraph 10 of the Multi-Party Settlement provides that "Cascade agree[d] to reduce its revenue requirement by $3,000,000 in consideration of the differences between its filed end of period depreciation and its 2021 actual depreciation expense."[56] In addition to this adjustment, two other minor changes were made yielding a further net reduction to depreciation expense of $5,768.[57]

34. By agreeing to this adjustment, the Stipulating Parties apparently recognized the inaccuracies that existed in the depreciation expense calculation in Cascade's initial filing. The Joint Testimony on this matter, however, attempts to explain the difference by making statements such as "[e]ach methodology includes benefits and drawbacks, but no methodology is clearly 'better' or more appropriate than the other."[58] This justification is misleading, however,

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[55] Chiles, Exh. MAC-4T at 9:9–10.
[56] Multi Party Settlement ¶ 10(1).
[57] Multi Party Settlement ¶ 10(2), (3).
[58] Joint Testimony at 5:2–4.

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because there were not conflicting methodologies, there was only Cascade's filing which was proven to be inaccurate by actual 2021 data. At the evidentiary hearing, Staff's witness confirmed that revenue requirement included in the settlement "used a 2021 actual depreciation expense"[59] The Settling Parties, however, did not explain why Cascade's method for calculating EOP depreciation expenses produced grossly inaccurate results or why it was appropriate to use actual 2021 data in light of the inaccurate data.

35. While using actual depreciation expenses for 2021 is preferable to the erroneous calculation included in Cascade's filing, this approach is problematic for several reasons. First, it incorporates depreciation expenses for a new plant placed into service in 2021, which was <u>not</u> considered in rate base or revenue requirement. Accordingly, the 2021 depreciation expense included in the settlement is still overstated because it includes depreciation on new plant additions not in service in the test period. Second, using the 2021 depreciation expenses results in an inconsistent revenue requirement, because it does not consider the incremental plant reserves that will accrue over the same period.

36. Regardless of when gross plant is measured, it is still necessary to establish revenue requirement using a test period. Because depreciation expense is measured over a period of time, the incremental plant reserves accrued over the same period must also be considered in order to produce a consistent revenue requirement calculation. In this case, using 2021 depreciation expense, or forward looking EOP depreciation expenses, is therefore not consistent unless the incremental reserves associated with that depreciation are also considered. Viewed

[59] Huang, TR at 80:6-7

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ratably, the incremental reserves accrued on 2020 EOP plant in connection with the 2021 depreciation expenses was approximately $14,227,680, which would otherwise result in a further $1,286,000 reduction to revenue requirement.[60]

37. Given the inadequacies of the depreciation expense calculation presented in Cascade's initial filing, and the inconsistencies that arise from using 2021 depreciation expenses, AWEC recommends using the actual accrued depreciation expenses for calendar year 2020 of $28,455,361 in the calculation of revenue requirement.[61] Calendar Year 2020 depreciation expense is the most accurate information available in the record for calculating revenue requirement. This recommendation produces a $2,870,960 reduction to revenue requirement.[62]

E. Bad Debt Expense Calculated Over the Three-Year Period 2016-2018 Is a Reasonable Measure of Uncollectable Expenses.

38. The Settling Parties revenue requirement model included $984,088 of uncollectible expenses in results prior to adjustments.[63] Uncollectible PGA and other non-margin revenues were 45% of this amount. After removing gas costs and revenues, and performing other adjustments, the total uncollectibles expense was $458,491. AWEC recommends using bad debt expense calculated over the three-year period 2016-2018, prior to COVID.

39. A review of Cascade's historical Washington Allocated bad debt expense over the period 2016-2020 demonstrates that Cascade's adjustment is unreasonable.[64] AWEC witness Brad Mullins prepared a chart with Cascade's historical bad debt expense.[65]

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[60] Mullins, Exh. BGM-1T at 20:16-21:2
[61] *Id.*
[62] *Id.*
[63] 210755-JOINT Exh-JT-2-3-22-22.xlsb.
[64] *See* Mullins, Exh. BGM-4 at 11 (Cascade Resp. to AWEC DR 068).
[65] Mullins, Exh. BGM-1T at 21.

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Table 3
Historical Washington-Allocated Bad Debt Expense 2016-2020

		2016	2017	2018	2019	2020
1	WA Bad Debt Exp.	765,092	980,606	678,646	964,264	972,241
2	3-Yr Rolling Avg.			808,115	874,505	871,717
3	Delta from Filed			(164,126)	(97,736)	(100,524)
4	Margin %			45%	45%	45%
5	Margin Impact			(73,898)	(44,006)	(45,261)

40. As demonstrated in Table 4 above, bad debt expenses were relatively high in calendar year 2019 and 2020 influenced at least in part by COVID. In all years analyzed, the three-year rolling-average on line 2 of Table 4 was less than the amount for 2020 included in Cascade's results. As a result, AWEC recommends that margin revenues be reduced by $77,898 based on the use of the three-year average bad debt expense over the period 2016 through 2018. This change results in a $81,503 reduction to revenue requirement.

F. It Is Reasonable to Remove Cash From, And Adjust The Jurisdictional Allocation Factor Used In, The Investor Supplied Working Capital Calculation.

41. The working capital contained in the Settlement Agreement is overstated. The Settling Parties calculate a working capital requirement of $13,038,376.[66] AWEC has two corrections to the Settling Parties working capital requirement. First, the Settling Parties included working capital of $1,322,172, associated with cash accounts.[67] Since Cascade earns interest on cash and cash equivalents, however, including this amount as a working capital requirement is not

[66] This calculation was provided in the Settling Parties' revenue requirement model "210755-JOINT Exh-JT-2-3-22-22.xlsb," in Excel Tab "Working Capital (AMA)."
[67] These amounts can be found on Excel rows "49:60" of the working capital workpaper.

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appropriate. AWEC recommends allocating these balances to the non-utility category, similar to the treatment of Cascade's investment accounts. Removing this amount from the working capital category results in a $828,769 reduction to working capital requirements.

42. Second, the working capital calculation used an outdated 3-factor allocator of 75.5%, rather than the 74.89% factor used in Cascade's filing. Making this correction results in a $24,074 reduction to working capital requirements. It does not appear that Cascade filed a response to AWEC's recommendation on the 3-factor allocator.[68]

43. AWEC's proposed revisions result in a $121,687 reduction to revenue requirement and more fairly balances the interest of shareholders and customers.

G. It is Not Reasonable to Include COVID Savings Contra Revenues in Revenue Requirement.

44. The Settling Parties failed to address COVID Savings Contra Revenues in the Settlement Agreement. In response to AWEC Data Request 04, AWEC observed that Cascade had booked $430,634.04 in Washington-allocated costs to FERC Account 921 for its COVID Deferral approved in December 2020.[69] In response to AWEC Data Request 95, Cascade stated that the purpose of this entry was "to record the excess 'savings' and excess 'costs' because of the COVID-19 pandemic to a deferred liability and deferred asset, respectively."[70] In Attachment A to AWEC Data Request 95, Cascade identified that the entry was based on savings of $589,799 and costs of $159,164, both stated on a Washington-allocated basis.[71]

[68] *See* Chiles, Exh. MAC-1T at 11:16–12:16.
[69] Mullins, Exh. BGM-4 at 1 (Cascade Resp. to AWEC DR 004); These amounts were identified in Attachment A to AWEC Data Request 4 in the Excel Tab "921" under document number 57031.
[70] *Id.* at 12–18 (Cascade Resp. to AWEC DR 95).
[71] *Id.* at 15 (Cascade Resp. to AWEC DR 95, Attachment A).

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45. In its Rebuttal Testimony, Cascade stated that the savings it identified in Attachment A to AWEC Data Request 95 only included savings accrued through November 2020. The total amount of COVID savings booked to the deferral as contra-revenues in the test period was actually $635,080.[72]

46. The $635,080 in COVID related savings represent contra revenue that Cascade has booked to operating expense.[73] The calculation included savings associated with items such as lodging, meals and entertainment, and commercial air services. In other words, since Cascade was returning the savings associated with these items to customers through the deferral, it increased its cost in the test period for the savings returned to customers. It is important to note that this savings does not represent an actual expenditure, but rather, negative revenues imputed as a result of the regulatory accounting approved for returning the COVID savings to customers through the deferral.[74]

47. By including the contra revenues associated with COVID savings in revenue requirement, there is an implicit assumption that the COVID savings Cascade quantified in response to AWEC Data Request 95 are non-recurring, that is that the savings will not be recognized on a going forward basis and that costs will increase to pre-pandemic levels. That assumption, however, is not necessarily accurate. Cascade witness Mark Chiles admitted that hearings like the virtual evidentiary hearing in this docket were typically held in person prior to the pandemic, and that there is widespread use of virtual meetings.[75] Based on what we know

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72 Chiles, Exh. MAC-4T at 13:3–6.
73 Mullins, Exh. BGM-1T at 24:4–5.
74 *Id.* at 24:8–11.
75 Chiles, TR at 44:11–19.

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today, it appears that COVID will have a lasting impact on the way that work is performed. Further, to the extent that Cascade does expect a change in operating expense as a result of the end of the pandemic, such a change must be supported by a specific pro forma adjustment. Simply assuming that costs, following the pandemic, will be equal to the 5-year average over the period 2015 through 2019 prior to the pandemic, as Cascade's deferral calculation does, is not reasonable in light of the changes that have occurred as a result of COVID. [76]

48. The deferred COVID related costs include items such as bad debt expense and incremental interest cost of short-term debt. Unlike savings, these cost items are expected to be eliminated following the pandemic. Accordingly, it is reasonable to retain the deferral accounting entries removing these expenses from operating expense. The Settling Parties did not address this issue in their revenue requirement proposal. Accordingly, AWEC recommends a $635,080 reduction to operating expense reversing the contra revenues that Cascade booked to FERC account 921 for its COVID deferral. The impact of this recommendation, updated to include the total amount of the COVID-19 savings identified in Cascade's Rebuttal Testimony, is a $664,467 reduction to revenue requirement.

H. Impermissible Directors' Expenses Are Not Appropriate to Include in Revenue Requirement.

49. The Directors' expense adjustment included in the Multi-Party Settlement includes improper expenses and should be modified. In Adjustment R-6, the Settling Parties make an adjustment in the amount of $178,117 to remove 50% of directors' fees and expense incurred in

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[76] Mullins, Exh. BGM-1T at 25:1–4.

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the test period.[77] In the transaction data provided in Response to AWEC Data Request 04, the specific transactions underlying the directors' fees and expense were not provided. Accordingly, in AWEC Data Request 100, AWEC requested that Cascade provide the specific transaction data underlying the $305,528 in MDU directors' fees allocated to Washington in the test period.[78] Included with the actual directors' fees and expense, were several other miscellaneous charges that are not appropriate to consider in Washington rates, whether at the 50% level or not. These amounts included $11,962 for items such as Company Organizational Dues to the North Dakota Newspaper Assoc., the Bismarck-Mandan Chamber of Commerce, the Wyoming Taxpayers Association, and the Nd Lobbyists Association.[79] AWEC recommends that these amounts be removed from revenue requirement, prior to the application of the 50% adjustment. The impact of this recommendation is a $6,258 reduction to revenue requirement.[80] Cascade did not address this issue in Rebuttal Testimony, or at the hearing.

I. Cascade Will Be Subject to a Normalization Violation if Protected Plus Excess Deferred Income Taxes Are Not Considered In Base Rates.

50. The Settlement Agreement is silent with regard to protected plus excess deferred income taxes ("EDIT") on rates. AWEC recommends including EDIT in base rates, based on the test year levels, and terminating Schedule 581. AWEC's recommendation is intended to address the proper treatment of protected-plus EDIT on a *going forward basis*, whereas Cascade's newly filed Docket UG-220198 can be used to address *historical* amounts.

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[77] Cascade had booked $356,234 in allocated costs from MDU in connection with its directors' fees and expense booked to FERC Account 930.2, with the title "MDUR Cross Charge."
[78] Mullins, Exh. BGM-4 at 19 (Cascade Resp. to AWEC DR 100).
[79] Mullins, Exh. BGM-1T at 26:8–11.
[80] Mullins, Exh. BGM-1T at 26:12-13.

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51. In Docket UE-190529 *Consolidated*, Puget Sound Energy ("PSE") requested a private letter ruling addressing, among other things, the permissibility under IRS normalization requirements of adjusting EDIT in a supplemental rate schedule with a true-up based on actual volumes variances.[81] Like Cascade's Schedule 581, PSE had been recovering such costs through a supplemental rate schedule, which was being trued-up annually. On July 26, 2021, the IRS issued Private Letter Ruling ("PLR") 101961-21 in response to a request from PSE and found that PSE's treatment would violate the normalization requirements of Internal Revenue Code ("IRC") § 168(i)(9). While this ruling was issued before Cascade filed this case, and substantially before the Settling Parties reached their settlement, the treatment of EDIT was not addressed in the Multi-Party Settlement. Rather, Cascade waited until the day after the Multi-Party Settlement was filed to submit its proposed tariff changes in Docket UG-220198.

52. Because the protected EDIT is being considered in Schedule 581 outside of base rates through a supplemental schedule, the Multi-Party Settlement is inconsistent with the Normalization requirements of IRC § 168(i)(9). To be consistent with the normalization requirements, the protected plus EDIT in rates needs to be based on the amount incurred in the test period. Based on Cascade's response to AWEC Data Request 38, Cascade incurred protected plus EDIT amortization of $1,300,396 in the test period.[82]

53. On March 23, 2022, Cascade submitted a tariff filing in Docket UG-220198, in which Cascade made a number of proposals related to protected EDIT in relation to PLR 101961-21. As mentioned above, that filing was submitted the day after Cascade and Staff submitted the

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[81] Docket UE-190529, IRS Private Letter Ruling Issued to Puget Sound Energy on July 26, 2021.
[82] Mullins, Exh. BGM-4 at 4 (Cascade Resp. to AWEC DR 038).

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Multi-Party Settlement in this case.   Following the submission of that filing, the Commission requested Docket UG-220198 be consolidated into this proceeding. Cascade, however, was unwilling to accommodate the request, as doing so would have required an extension of the suspension period for this case. Given Cascade's reluctance to modify the schedule in this case to address the issue related to protected plus EDIT, and the fact that it was not addressed in Cascade's filing or the Multi-Party Settlement in this case, AWEC requests that ratepayers be held harmless in the event there are any negative impacts from Cascade's decision to not address normalization issues in a timely manner.

54. Failure to consider protected-plus EDIT reversals based on the test period would result in a normalization violation. Consistent with PLR 101961-21, Cascade recommends that Schedule 581 be eliminated and that protected-plus EDIT reversals included in revenue requirement be limited to the 2020 test period amount. To affect this change, revenue must be increased for Schedule 581 surcredit revenues, which already occurred in Adjustment R-7. It was also necessary to add back the EDIT of $1,606,444 that was reversed through the same adjustment. Making these changes produces an overall $2,127,568 reduction to base rate revenue requirement.

J. The Cost Recovery Mechanism Is No Longer Necessary and It Is Impermissible for Cascade to Make Ad Hoc Adjustments to Rates In Compliance Filings.

55. AWEC recommends that the Commission order Cascade to refund Cost Recovery Mechanism ("CRM") rate adder revenues Cascade included in its compliance filing that were not authorized in Order 05 of Docket UG-200568. The Schedule 597 CRM was initially

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implemented effective November 1, 2013, in Docket UG-131959, following the Commission Policy Statement issued in Docket UG-120715.

56. The structure and design elements of the CRM are not detailed in Schedule 597 or through supporting testimony in Docket UG-131959. Cascade's CRM filings only referred to the Commission Policy Statement issued in Docket UG-120715. In the Rebuttal Testimony of Mark Chiles, he describes the CRM process on page 23 of his testimony.[83] Under cross examination, Cascade witness mark Chiles says of the CRM "It is confusing. It's confusing to me. I—I can walk you through this. I don't know that I can provide more explanation than what—than what is included in the timeline that is shared on page 23."[84] Indeed, Cascade's testimony and the explanation of Cascade's witness gives AWEC little comfort that Cascade is using the CRM process as intended.

57. The CRM and the general rate case filings are interrelated. Accordingly, the fact that the CRM was not addressed in the Multi-Party Settlement is an error because Cascade plans to make an after-the-fact adjustment to its margin revenues in its compliance filing for CRM additions even though the adjustments are not specifically identified in this proceeding.[85]

58. It is AWEC's understanding that the CRM was not meant to be a permanent mechanism, but a temporary mechanism put in place before the costs could be included in base rates. The Commission stated that "the CRM will have a life of up to four years before including the investment covered by the program in base rates."[86] The Commission anticipated that it would

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[83] Chiles, Exh. MAC-4T at 23.
[84] Chiles, TR at 46:23–47:1–7.
[85] Chiles, Exh. MAC-4T at 24:11–18.
[86] Docket UG 120715, Pipeline Replacement Policy Statement – Final at ¶ 75.

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review and potentially modify the CRM mechanisms after the four-year term, stating that it "will review this policy after it acts on the second round of CRM filings in 2015, and periodically thereafter, to determine whether it has accomplished the hoped-for results."[87]

59. It is also AWEC's understanding that when a utility files a general rate case, all costs associated with a pipeline replacement plan were to be included in the utility's filings. The Commission stated, "any general rate case filing must include all plan investment in base rates and reset the tariff to exclude any CRM recovery."[88] The Commission also stated "[i]f a company files a general rate case within the four year life of the CRM, investment would be included in base rates."[89]

60. The CRM on a going forward basis is no longer necessary for Cascade to recover pipeline replacement plan costs, particularly given the Commission's used and useful policy statement in Docket U-190531 and Cascade's ability to file a multi-year rate plan. While Cascade acknowledged that it had the opportunity to prepare a multi-year rate plan in this case, it elected not to do so. Cascade has also stated that it intends to file such a case later this year, or in early 2023.[90]

61. As noted above, a distribution utility's general rate case filing must include all pipeline replacement plan investment in base rates, with the CRM rates set to zero. In Docket UG-200568, Cascade did not specifically address CRM related investments in its filing, although it

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[87] *Id.* at ¶ 77.
[88] *Id.* at ¶ 70.
[89] *Id.* at ¶ 75.
[90] Chiles, Exh. MAC-1Tr at 3:8–10.

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must be assumed that all such costs were considered in its filing, consistent with the Commission's requirements.

62. While the pipeline replacement plan investments were not specified in Cascades filing in Docket UG-200568, Cascade made an ad hoc adjustment to base rates in its compliance filing for additional pipeline replacement plan investments. This adjustment was not included in its initial filing or discussed at any point in the proceeding. There was no mention of this adjustment in the Commission's final Order 05 in the docket. Notwithstanding, in Cascade's June 11, 2021, compliance filing in Docket UG 200568, Cascade made a new adjustment, increasing revenue requirement approved by the Commission in Order 05 by $966,943 for pipeline replacement costs.[91] Thus, while the Commission's order required Cascade to reduce its rates by $390,563, Cascade actually increased its rates by $576,379.[92]

63. Review of Mythrum, Exh. IDM-4, from UG 200568 shows that the CRM adjustment was not considered nor contemplated in Cascade's initial filing. Review of the supporting workpaper, "UG-200568- CNGC Exh IDM-2-5 and WP-1, 6.19.20.xlsx," Excel Tab "Exh 4, Revenue Distribution" also supports this finding.

64. The Commission's Policy Statement required such costs to be included in the utilities filing, not as a supplemental adder in the compliance filing stage. The CRM that was in effect at the time that UG-200568 rates went into effect was for plant additions placed into service

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[91] This adjustment may be observed in Cascade's workpapers supporting its June 11, 2021, filing, in the Excel Tab "Exh 4, Revenue Distribution", Excel Column "M". While from that workpaper, it has the appearance that Cascade's tariff would otherwise reflect the "Proposed Rate" in Excel Column "F," the actual rates that Cascade included in its tariff were those in Excel Column "N," which included a CRM rate adder in Excel Column "M."

[92] *Id.*

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through October 2020. Those additions were squarely within the pro forma period that was being considered in the case, and, therefore, there was no reason for them to be included after the fact in the compliance filing stage.

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

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

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

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K. Public Counsel's Analysis of a 2021 Test Period Corroborates AWEC's Revenue Requirement Recommendation.

66. In Opposition Testimony, Public Counsel recommended that the Commission approve a revenue increase of $2,614,000.[93] Principal to this recommendation was Public Counsel's review of Cascade's results of operations for calendar year 2021.[94] Public Counsel's analysis demonstrated that Cascade's need for rate relief is diminished, relative to the agreement reached in the Multi-Party Settlement if one considers the operating conditions subsequent to the test period. Thus, Cascade's framing of this proceeding as a limited issue filing, with few post test period adjustments, was an aspect of this case that was beneficial to Cascade to the detriment of its customers. By ignoring the post test period information, Cascade's limited rate filing and the Multi-Party Settlement "does not comply with the law because it is excessive and would give Cascade an annual revenue increase that is unreasonable large and that it is not justified."[95]

L. The Commission Should Adopt TEP's Proposal Concerning The WEAF Program

67. TEP proposes three modifications to the Washington Energy Assistance Fund (WEAF) program: "(1) increasing the income eligibility threshold, (2) establishing a dedicated low-income outreach effort using trusted messengers and community-based outreach, and (3) requiring the low-income Advisory Group to annually review funding levels."[96]

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[93] Garrett, Exh. MEG-1T at 6.
[94] *Id.* at 6:9
[95] Paisner, TR at 17:16-20.
[96] Collins, Exh. SMC-1T at 3:3–7.

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68. In recent years, approximately 25–40 percent of WEAF program funds have remained unspent.[97] TEP does not propose increasing funding at this time[98] but rather suggests that expanding eligibility, community outreach, and oversight will encourage utilization of program funds. Specifically, TEP suggests changing WEAF's household income eligibility threshold to the higher of "80 percent of area median household income (AMI) or 200 percent of the FPL (the current threshold) . . . ."[99] AWEC does not oppose this or TEP's other proposals concerning the WEAF program and believes it is in the public interest to encourage the distribution of approved funds to customers in need.

IV. CONCLUSION

69. Cascade has failed to meet it burden of proof demonstrating that its proposed rate increase is justified and would result in fair, just and reasonable rates. Similarly, the Settling Parties have failed to provide "supporting documentation sufficient to demonstrate that the settlement is consistent with the law and the public interest."[100] AWEC recommends that the Commission reject, or approve with the modifications proposed by AWEC and other parties, the Full Multi-Party Settlement as proposed because it is not fair, just, and reasonable.

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[97] *Id.* at 7:5–6.
[98] *Id.* at 8:8–10.
[99] *Id.* at 9:1–5.
[100] WAC § 480-07-740(3).

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