Exh. MAC-4Tr
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

REVISED MAY 31, 2022

REBUTTAL TESTIMONY (NONCONFIDENTIAL)

IN SUPPORT OF MULTIPARTY SETTLEMENT STIPULATION

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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").

II. REBUTTAL TO AWEC'S RESPONSE TESTIMONY TO THE MULTIPARTY SETTLEMENT

A. THE MULTI-PARTY SETTLEMENT

Q. How do you respond to Section II of AWEC's Opposition Testimony, "The Multi-Party Settlement"?

A. Section II of AWEC's brief, "The Multi-Party Settlement" is more legal brief than testimony, and it is riddled with misstatements and misrepresentations. The parties engaged in multiple settlement discussions, as described in the Joint Testimony of myself and Joanna Huang, Exh. JT-1T (see Exh. JT-1T at 3:6-4:10). It is improper to describe those confidential settlement negotiations in any detail, and it is wrong to imply that the non-settling parties were not given the opportunity to engage meaningfully in negotiations. If AWEC chose not to participate in settlement negotiations, that does not mean the negotiations did not occur.

Regarding AWEC's recommendation on page six of Exh. BGM-1T that the Commission "could simply decide not to consider the Multi-Party Settlement", Cascade believes the Commission has already indicated that it will consider the settlement, as suggested by the suspension of the procedural docket, ordering Staff and Cascade ("the Settling Parties") to file the settlement agreement and supporting testimony, and setting the matter for hearing. For the Commission to decide to simply not consider a full multi-party settlement ("Settlement") would contradict public policy, which favors the resolution of disputes through the settlement process.

B. REVENUE REQUIREMENT

1. Capital Structure

Q. AWEC witness Bradley Mullins recommends the Commission modify Cascade's proposed capital structure.[1] Did Cascade propose changing its capital structure from what was approved in the Company's last general rate case?

A. No; Cascade did not propose any change to its capital structure, which the Commission approved only months before Cascade's filing. In fact, Cascade 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. On page 23, paragraph 82, of Order 05 issued in Cascade's 2020 general rate case, Docket UG-200568 ("Order 05"), the Commission states "… we conclude that it is reasonable to maintain Cascade's equity ratio at 49.1 to provide stability in the Company's capital structure in the face of increased gas costs. Cascade's capital structure should therefore be maintained at a ratio of 49.1 percent equity and 50.9 percent long-term debt, as approved in the Company's last general rate case."

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[1] Mullins, Exh. BGM-1T at 7:20-21.

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

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

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

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

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

Q. What about the remaining unbilled revenue?

A. The remaining unbilled revenue of $ 1,413,568 ~~637,012~~ is mainly associated with large volume customers, who typically are billed at the beginning of the following month. In this case, most of the unbilled revenue is associated with Schedule 511 large volume customers since non-core customers, Schedule 663 customers and Special Contract customers, had a positive $84,526 of unbilled revenue that increased revenues and decreased revenue requirement.

Q. Why should the remaining $ 1,413,568 ~~637,012~~ of unbilled revenue be reflected in the Settlement?

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

3. End of Period Depreciation

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

A. No. It creates a mismatch between depreciation expense and the associated plant. 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.

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

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

4. Uncollectible Accounts

Q. Is the uncollectible amount used within Cascade's test period representative of past uncollectable amounts?

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

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

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

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

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

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[3] *See* https://www.cdc.gov/museum/timeline/covid19.html.

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

In addition, AWEC is suggesting the use of a three-year average of bad debt expense based on the period 2016-2018.[4] As previously discussed, AWEC is suggesting that 2019 was influenced by the impacts of COVID, which ostensibly provides the rational for excluding it from the average. This theory is flawed, however, because 2019 was not impacted by COVID. AWEC could have used 2017-2019, which was also pre-COVID, but that would result in a smaller adjustment. Instead, AWEC hand-selected the period that resulted in the largest impact, even though it is the period that is furthest from the test year in this proceeding.

5. Working Capital

Q. What is working capital?

A. Working capital represents the funds provided by shareholders to run the day-to-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.

costs before the Company receives revenues. A prime example is gas inventory, where gas is purchased and included in inventory in the summer months, but that inventory is not used and billed to customers to generate revenue until winter. Another example is cash. Cash is needed to pay for expenses but those expenses haven't been incurred yet so there is a timing lag. Cash is a classic example of an item that makes up working capital.

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

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

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

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

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

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

6. COVID Deferral

Q. Did AWEC misinterpret COVID deferral data?

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

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

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

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

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

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

Q. Did Cascade consider removing the deferred accounts?

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

7. Protected Plus Excess Deferred Income Taxes

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

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

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

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

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

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

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

A. No. The procedural schedule in this case does not allow for consideration of AWEC's proposals relating to protected EDITs, nor does it provide an opportunity for other parties to respond to AWEC's testimony on this issue. The five business days for filing rebuttal testimony does not even allow time for the Settling Parties to issue and receive a response to a data request regarding AWEC's proposals.[5] This is especially prejudicial to Cascade as the party bearing the burden of supporting its request for a rate increase. Cascade must have the opportunity to analyze the impacts of AWEC's proposals, yet that is simply not possible, nor is it appropriate, in this proceeding.

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

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

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

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[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).

C. COST RECOVERY MECHANISM ("CRM")

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

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

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

A. No. AWEC's recommendations rely heavily on an inaccurate conclusion from the Commission's policy statement in Docket UG-120715. AWEC states that the policy was only intended to be in place for four years, referencing paragraph 75 of the Commission's policy statement. AWEC ignores the last sentence of the paragraph which states, "The CRM process would commence again within the framework of that general rate case." The Commission states further in paragraph 77 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 of more proactive replacement of elevated risk pipe. Until the Commission determines that such hoped-for results have been accomplished, there is no reason to conclude that the CRM is no longer necessary, and the CRM should remain unchanged.

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

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

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

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

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

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

A. A multi-year rate plan may be able to reduce regulatory lag associated with replacing the most at-risk pipe, however, it is premature to eliminate the mechanism until that mechanism can be evaluated in the context of such multi-year proposal. That is not before the Commission in this proceeding. Cascade is required to file a multi-year plan in its next general rate case and the Commission will evaluate at that time whether it is appropriate for the CRM to be either modified or eliminated based on a multi-year rate plan proposal.

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

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

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

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

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

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

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

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

Q. Can you explain why timing is an issue?

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

Cascade's 2020 general rate case, Docket UG-200568, which was based on a 2019 test year, was filed on June 19, 2020, and was effective July 1, 2021. On November 1, 2020, nearly 6 months after the general rate case was filed, a CRM was approved based on new investment from January 1, 2020, through October 31, 2020. However, the filing also reflected that the investment from the previous year's CRM, November 1, 2018, through October 31, 2019, had further depreciated a year, thus creating a mismatch to the revenue component in the rate case. Investments made prior to January 2020 were included in the rate case; so, as part of the compliance filing, the only rate component remaining in the CRM was for investments made after January 1, 2020.

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

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

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

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

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

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

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

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

A. Certainly. The timeline is as follows:

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

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

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

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

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

6) November 2021: Annual CRM goes into effect including updating 2020 investment with a second year of depreciation, October 2020 true-up, and investment from January 1, 2021, through October 31, 2021.

7) August 2022: Compliance filing for current filing, UG-210755 will include removing all investment in CRM through December 2020 and the October 2020 true-up. Only investment from January 2021 forward will be included in CRM rates. Base rates include the CRM rate components shown in the rate case (See pages 3, 6, 9, 12, 15, 18, 21 of Exh. IDM-2).

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

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

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

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

D SCHEDULE 663 OVERRUN ENTITLEMENT CHARGE

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

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

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

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

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

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

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

A. No. The Overrun Entitlement Charges billed to customers do not in any way increase Cascade's earnings. Instead, any Overrun Entitlement Charges received from Transportation customers are passed on to the Company's core customers through the PGA to ensure that core customers do not subsidize Transportation customers that choose not to or otherwise fail to abide by the requirements of an Entitlement period. Potential impacts to core customers include not only entitlement penalties that Cascade could face as a result of Transportation customers not delivering enough gas during an entitlement period, but also additional natural gas that must be withdrawn from storage or spot gas that must be purchased to balance Cascade's system.

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

A. As this Commission has recognized, it is critical to have all interested parties at the table to discuss a major policy change such as is proposed by AWEC. AWEC's website states they have 40 members and five associate members. Cascade currently has 240 Transportation customers, which means even if all 45 AWEC members are Cascade customers, AWEC still represents less than 20 percent of Cascade's Transport customers.

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

Additionally, given the similarities in the tariff language among the other Washington natural gas utilities, those other utilities may also have an interest in this policy discussion. To facilitate broader participation in the process, Cascade proposes that this discussion could most appropriately be handled in a separate proceeding.

III. REBUTTAL TO PUBLIC COUNSEL'S RESPONSE TESTIMONY

Q. Does Public Counsel recommend a test year different from the one filed by Cascade?

A. Yes. Public Counsel recommends the use of a 2021 test year rather than the 2020 test year filed by Cascade in this proceeding. Public Counsel's recommendation is to essentially replace Cascade's initial case and the Multi Party Settlement with an entirely new case at the very end of this proceeding.

Q. Are there any issues with Public Counsel's proposed 2021 test year?

A. Yes. Cascade identified many issues with Public Counsel's proposed 2021 test year in the limited time the Company had to review the proposal. First, Public Counsel did not include the 5-year average of employee incentives. In Cascade's last rate case, Docket UG-200568, Public Counsel argued for and prevailed in the argument that a five-year average should be used for employee incentives. If Public Counsel had made this adjustment, it would have decreased their proposed incentive adjustment by approximately $300,000.

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

Third, Public Counsel takes Cascade's fully adjusted 2020 settlement results and adjusts those results to 2021 unadjusted books, which they label as their 2021 AMA result adjustment. This is an apple to orange comparison, which could have any number of errors. As an example of the types of errors this process produced, the workpapers to Exh. MEG-5 show a revenue increase of over $16 million, while both Cascade's federal income taxes and other taxes decreased by over $2.1 million. The directional difference in these items does not make sense. Additionally, the revenue increase that was calculated would require over 10 percent customer growth year over year, which Cascade did not see. Another important difference is that Cascade's test year results reflect the removal and adjustment of incentives, removal of supplemental schedules, restating of revenues, adjustment of director fees, and multiple other restating and proforma adjustments while Public Counsel's starting point does not. Without calculating an entirely new general rate case based on a 2021 test year, it is impossible to correctly account for these required adjustments.

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

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

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

IV. REBUTTAL TO THE ENERGY PROJECT'S RESPONSE TESTIMONY

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

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

Accordingly, Cascade does not object to TEP's proposed three improvements to the Washington Energy Assistance Fund ("WEAF"). Cascade would not object to 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.