

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-210755

FINAL ORDER 09

APPROVING AND ADOPTING
SETTLEMENT AGREEMENT
SUBJECT TO CONDITIONS

***Synopsis:** The Washington Utilities and Transportation Commission (Commission) approves the Multiparty Settlement (Settlement) filed by Cascade Natural Gas Corporation (Cascade or Company) and Commission staff (Staff) on March 22, 2022, subject to conditions that incorporate equity provisions and reduce the revenue requirement proposed by the Settlement.*

The Commission agrees, in part, with the Public Counsel Unit of the Attorney General's Office (Public Counsel), The Alliance of Western Energy Consumers (AWEC), and The Energy Project (TEP) that Cascade and Staff (the Settling Parties) failed to demonstrate that the settled-upon rates are fair, just, reasonable, equitable, and sufficient, and therefore reduces the revenue requirement increase to \$7.2 million, representing a 5.81 percent increase to base revenues, and requires certain adjustments to effectuate this outcome and address equity concerns, as outlined in this Order. The Commission also provides high-level policy guidance related to the Legislature's expansion of the public interest standard to include equity considerations; provides specific guidance on equity in this proceeding; and sets expectations for inclusive settlement negotiation processes going forward.

The Commission adopts TEP's proposed improvements to Cascade's Washington Energy Assistance Fund (WEAF) program, which include increasing eligibility, creating dedicated outreach programs, and annually reviewing program funding levels, finding that these improvements promote equity and increase customer access to bill assistance.

The Commission accepts Cascade's proposal to maintain its return on equity at 9.4 percent, and accepts the Company's proposed 4.59 percent cost of debt, both of which are uncontested. The Commission adopts AWEC's proposal to modify the Company's capital structure to reflect 47.0 percent equity and 53.0 percent long-term debt, finding that this structure strikes an appropriate balance between the principles of safety and economy and results in the most fair, just, equitable, reasonable, and sufficient outcome. This change results in a 6.85 percent rate of return for Cascade.

The Commission approves the Settlement's proposal to value rate base on an end of period basis, and accepts treatment proposed by the Settling Parties related to unbilled revenue, COVID-19 contra revenue, bad debt expense, and working capital as reasonable outcomes of a negotiated agreement supported by the evidence in the record.

The Commission adopts AWEC's proposal to use actual accrued depreciation expense for calendar year 2020 because it is consistent with the modified historical test year rate base used to develop rates. The Commission also accepts AWEC's proposed changes to the Company's adjustment related to Directors' Fees, finding that these \$6,258 in misallocated costs are below the line expenses not appropriate for ratemaking treatment.

The Commission finds that delaying resolution of the treatment of protected-plus excess deferred income tax on a going-forward basis until a later proceeding may result in single-issue ratemaking and may harm both the Company and its customers. The Commission therefore requires the parties to work collaboratively to propose a method for incorporating these amounts into base rates and requires the Company to make a compliance filing reflecting the results of that collaborative effort within 60 days of the effective date of this Order.

The Commission declines to adopt AWEC's proposal to (1) terminate Cascade's Cost Recovery Mechanism and (2) require the Company to refund to customers amounts collected as a result of the Company's compliance filing in its last general rate case. The Commission, however, requires that Cascade make its Cost Recovery Mechanism rate base adjustments in the context of a general rate case or at one of the Commission's regularly scheduled open meetings to ensure all parties are afforded due process.

The Commission also declines to adopt AWEC's proposal to change Schedule 663 related to overrun entitlement charges, finding that the issues raised are best resolved in a future proceeding following resolution of the formal complaint in Docket UG-210745.

Finally, the Commission approves multiple uncontested issues and adjustments either explicitly addressed in the Settlement or proposed in Cascade's initial filing and adopted by the Settlement as reasonable outcomes of a negotiated agreement supported by the evidence in the record. These include a \$4,973 revenue requirement increase related to the Company's reclassification of unspecified plant in rate base, and a finding that the Company's costs related to certain new and renewable resources were prudently incurred.

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BACKGROUND

- 1 **PROCEDURAL HISTORY.** On September 30, 2021, Cascade Natural Gas Corporation
(Cascade or Company) filed with the Commission revisions to its currently effective
Tariff WN U-3 for natural gas service provided in Washington. Cascade's initial filing
requested an increase in annual revenues of approximately \$13.7 million, representing a
5.12 percent increase to total revenues and an 11.10 percent increase to base revenues.
- 2 On October 13, 2021, the Commission entered Order 01 in this Docket, suspending the
tariff revisions and allowing further investigation to determine whether the proposed
tariff filing is in the public interest.
- 3 On October 25, 2020, the Commission convened a virtual prehearing conference. The
Commission granted unopposed petitions to intervene filed by the Alliance of Western
Energy Customers (AWEC) and The Energy Project (TEP) and established a procedural
schedule. On October 26, 2021, the Commission entered Order 03, Prehearing
Conference Order and Notice of Hearing.
- 4 On February 18, 2022, counsel for Staff notified the presiding Administrative Law
Judges that Staff and Cascade (Settling Parties) had reached a full settlement in principle.
Staff requested the Commission suspend the procedural schedule and convene a status
conference to modify the schedule in light of the settlement.
- 5 On March 10, 2022, the Commission convened a virtual status conference and on March
11, 2022, issued Order 05, Second Prehearing Conference Order, which modified the
procedural schedule to accommodate the settlement.
- 6 On March 14, 2022, AWEC filed a Petition for Case Certification and Notice of Intent to
Request Fund Grant, stating that the organization qualified for funding from Cascade's
Customer Representation Sub-Fund.¹
- 7 On March 18, 2022, TEP also filed a Petition for Case Certification and Notice of Intent
to Request Fund Grant, stating that the organization qualified for funding from Cascade's
Customer Representation Sub-Fund.²

¹ Petition for Case Certification and Notice of Intent to Request Fund Grant of the Alliance of
Western Energy Consumers, at 3:5.

² The Energy Project Request for Case Certification and Notice of Intent to Request a Fund
Grant, at 2:5.

8 On March 15, 2022, Cascade filed the Settling Parties' Term Sheet and on March 22, 2022, the Company filed the Multiparty Settlement Stipulation (Settlement) on behalf of the Settling Parties.

9 On March 24, 2022, Cascade filed with the Commission proposed revisions to its currently effective Tariff WN U-3 in Docket UG-220198 that would, among other things, address amounts of deferred income taxes that Cascade claims were over-refunded to customers and set an amortization rate for deferred income tax amounts that must be passed back to customers prospectively to avoid violating Internal Revenue Service (IRS) normalization rules.

10 On March 25, 2022, the Commission issued Order 06, Granting Requests for Case Certification.

11 On March 29, 2022, the Commission issued a Notice of Intent to Consolidate Proceedings in Dockets UG-210755 and UG-220198 and Notice of Bench Request No. 1, which required Cascade to explain why it did not incorporate the tariff revisions proposed in Docket UG-220198, intended to address and prevent IRS normalization rule violations, into its general rate case (GRC) filing in this Docket.

12 On April 5, 2022, Cascade, Staff, and the Public Counsel Unit of the Attorney General's Office (Public Counsel) filed responses opposing consolidation. AWEC also filed a response that did not oppose consolidation but identified scheduling concerns. Cascade additionally filed its Response to Bench Request No. 1, stating that including the proposed tariff filing submitted in Docket UG-220198 would have broadened the scope of the current rate case in this Docket, which it called a "limited issue rate case,"³ and significantly delayed the filing.

13 On April 14, 2022, the Commission convened a status conference and determined it would abstain from consolidating Dockets UG-210755 and UG-220198.

14 On April 21, 2022, AWEC and TEP filed proposed budgets.

³ See Cascade Natural Gas Corporation Response to Bench Request No. 1: "Docket UG-210755 is a limited issue rate case to address the most significant drivers behind Cascade Natural Gas Corporation's ... continued underearning... Testimony of Mark Chiles describes how the limited issue rate case filing is intended to significantly reduce the number of issues normally addressed in a full general rate case."

- 15 On April 25, 2022, Public Counsel, AWEC, and TEP (Non-settling Parties) filed opposition testimony and exhibits contesting various elements of the Settlement.
- 16 On April 28, 2022, Cascade filed a Motion to Strike Opposition Testimony and Exhibits related to AWEC's discussion of Protected-Plus Excess Deferred Income Taxes and Cascade's Schedule 663. Cascade argued that these issues are not relevant to this case because both are being litigated in other dockets.⁴
- 17 On May 2, 2022, Cascade and Staff filed Rebuttal Testimony.
- 18 On May 4, 2022, AWEC filed its opposition to Cascade's Motion to Strike Opposition Testimony and Exhibits arguing that the Company could not limit issues raised by opposing parties.
- 19 On May 25, 2022, the Commission held a virtual public comment hearing. Public Counsel filed a comment matrix and response to Bench Request No. 5 on June 9, 2022. Ten customer comments were filed in opposition the proposed rate increase. Customers identified concerns related to fixed income households, single-parent families, high unemployment, and limited options. Customers also requested more low-income assistance.
- 20 On May 26, 2022, the Commission entered Order 07, Denying Motion to Strike, finding that AWEC's testimony addresses issues properly within the scope of this Docket and exercising the Commission's authority and discretion to review AWEC's testimony as part of its consideration of the Settlement.
- 21 The Commission conducted a virtual evidentiary hearing on June 1, 2022. By stipulation of the parties, the Commission entered into the record all pre-filed testimony and exhibits, as well as all cross-examination exhibits. During the hearing, the Commission issued Bench Request No. 2 to the Settling Parties, which requested the dates and methods of communication among the Parties regarding the settlement process.
- 22 On June 6, 2022, Staff filed an objection to Bench Request No. 2, arguing that it violated WAC 480-07-700(6)(a)-(b) and that the information requested was confidential. Staff additionally argued that the request was irrelevant to the Commission's evaluation of the Settlement.

⁴ Cascade Natural Gas Corporation's Motion to Strike Opposition Testimony and Exhibits, ¶ 5-6.

- 23 On June 8, 2022, the Commission entered Order 08, Approving Proposed Budgets.
- 24 On June 15, 2022, the Commission issued Notice Overruling Objection and Withdrawing Bench Request No. 2, explaining that the request was focused on process rather than the substance of discussions and reiterating that the Commission is responsible for ensuring appropriate processes are followed in its proceedings. As such, pursuing this line of questioning was well within the Commission’s discretion when approving or rejecting a settlement.⁵
- 25 Also on June 15, 2022, Cascade filed responses to Bench Requests No. 3 and No. 4 in response to requests made by the Commission during the evidentiary hearing.
- 26 On July 1, 2022, Cascade filed a post-hearing brief on behalf of the Settling Parties. Public Counsel, AWEC, and TEP also filed post-hearing briefs that same day.
- 27 **PARTY REPRESENTATIVES.** Donna Barnett and Megan Lin, Perkins Coie, LLP, Bellevue, Washington, represent Cascade. Nash Callaghan, Assistant Attorney General, Lacey, Washington, represents Staff.⁶ Ann N.H. Paisner, Lisa Gafken, and Nina M. Suetake, Assistant Attorneys General, Seattle, Washington, represent Public Counsel. Chad M. Stokes and Tommy Brooks, Cable Huston LLP, Portland, Oregon, represent AWEC. Yochanan Zakai, Shute, Mihaly & Weinberger LLP, San Francisco, California, represents TEP.
- 28 **REVENUE REQUIREMENT DETERMINATIONS.** The Commission approves the proposed Settlement subject to several conditions. Among other modifications to the Settlement, the Commission adopts AWEC’s proposed capital structure of 47.0 percent equity and 53.0 percent debt, accepts AWEC’s proposal to use actual accrued depreciation expense for calendar year 2020, and accepts AWEC’s proposal to modify the Company’s adjustment to Directors’ Fees. In total, the conditions reduce the revenue requirement proposed by the Settlement from approximately \$10.7 million to

⁵ Pursuant to WAC 480-07-750(2), “The commission will 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.”

⁶ In formal proceedings such as this, the Commission’s regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners’ policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

approximately \$7.2 million, resulting in a 5.81 percent increase to base revenues and a 2.68 percent increase to total revenues.

29 Subject to these conditions, we find that the rates, terms, and conditions in the Settlement are fair, just, reasonable, equitable, and sufficient. The Commission accepts the Settlement's proposal to value rate base on an end of period basis, finding that it best reflects rate base values in the rate effective year. The Commission accepts the Settlement's proposed return on equity (ROE) of 9.4 percent and Cascade's proposed cost of debt of 4.59 percent, both of which are uncontested. The Commission authorizes a 6.85 percent rate of return for Cascade. Finally, the Commission accepts numerous uncontested issues and adjustments, finding that they result in a reasonable outcome supported by evidence in the record. Appendix B provides the Commission's revenue requirement determination.

30 A copy of the Settlement is attached to this Order as Appendix A and, by this reference, incorporated herein. If there is any discrepancy between the Commission's summary and the terms and conditions set out in the Settlement, the latter controls. The Commission summarizes the negotiated terms proposed by Cascade and Staff.

MEMORANDUM

I. SUMMARY OF SETTLEMENT TERMS AND PARTY POSITIONS

31 The Settlement adopts Cascade's initial filing in this proceeding with the following modifications:

1. Overall, the Settlement reduces Cascade's proposed revenue requirement increase from \$13.7 million, or an 11.10 percent increase to base revenues, to \$10.7 million, or an 8.64 percent increase to base revenues.
2. Cascade's revenue requirement is reduced by approximately \$3 million based on the differences between its filed 2020 actual depreciation and its 2021 end of period depreciation expense.⁷

⁷ A significant shortcoming of the proposed Settlement is the lack of written detail outlining and describing its terms, in particular the Settlement's depreciation terms. This Order attempts to characterize the depreciation terms by reconciling the lack of detail in the Settlement with information that can be gleaned from Exh. JT-2, spreadsheet "EOP Depr Exp Adj." We expect that Settling Parties will provide clearer and more detailed term descriptions in future

3. Cascade's revenue requirement is increased by \$4,973 based on the Company reclassification of unspecified plant within its rate base, which includes impacts to rate base, taxes, and depreciation expense.
4. Cascade's revenue requirement is reduced by \$10,741 based on Cascade's revision to its Washington State Jurisdictional Allocation factors to reflect calendar year 2020 rather than 2019 data.
5. Cascade's revenue requirement is reduced by \$26,526 to remove expenses to reflect "a more accurate amount" of Director and Officer expenses.⁸
6. The Settlement accepts the prudence of Cascade's new and renewed resources in the Company's filing.

32 The agreed terms in the Settlement are supported by and incorporate the Company's initial testimony and exhibits, as well as the Settling Parties' Joint Testimony.

33 The Non-settling Parties oppose the Settlement and recommend the Commission reject the Settlement in its entirety. The Non-settling Parties offer testimony and evidence specifically contesting the settlement negotiation process and the overall terms of the Settlement, as well as the overall revenue requirement increase of approximately \$10.7 million, or an 8.64 percent increase to base revenues.

34 The Non-settling Parties contest the following issues and propose the following adjustments:

- Capital structure
- Termination of the Cost Recovery Mechanism Schedule 597
- Overrun Entitlement Charges Schedule 663
- Expanding the pro forma study to include 2021 results of operations⁹

Settlements. Any inaccuracy in our characterization of the Settlement is due to the lack of specificity in the Settlement.

⁸ Joint Testimony, Exh. JT-1T at 5:21-22.

⁹ Public Counsel proposes a series of revenue requirement adjustments, MEG-5 through MEG-13, to expand the pro forma period to include 2021 results of operations on an average of monthly

- R-3 Restate EOP
- R-6 Remove 50% Directors Fees
- P-2 Unbilled Revenue
- A-2 Bad Debt Expense
- A-3 Working Capital
- A-4 COVID-19 Contra Revenue
- A-5 Protected Plus Excess Deferred Income Taxes (PP EDIT)
- A-6 Cost Recovery Mechanism Schedule 597 refunds

35 The Non-settling Parties do not provide testimony opposing the following Settlement terms:

- The \$4,973 increase to Cascade's revenue requirement based on the reclassification of unspecified plant within its rate base, which includes the impacts to rate base, taxes, and depreciation expense
- The prudence of Cascade's new and renewed resources in this proceeding
- The return on equity of 9.4 percent
- The cost of debt updated for June 2022 debt issuance, 4.59 percent
- R-1 Annualize CRM
- R-2 Promotional Advertising Adjustment
- R-4 Restate Wages

averages basis or, in the alternative, an end of period basis. Because Public Counsel's adjustments are inextricable from its larger proposal to adjust the overall revenue requirement calculation, the Commission is unable to analyze them individually on their own merits. Although we do not address the adjustments separately in this Order, we consider Public Counsel's position and arguments related to each issue.

- R-5 Restate Incentives
- R-7 Remove Supplemental Schedules (excluding PP EDIT)
- R-8 Restate Late Payment Charges Adjustment
- R-9 Removal of FP-319072 & FP-319209
- R-10 Reclass Rate Base (AWEC DR 5)
- P-1 Interest Coordination Adjustment
- P-3 Pro Forma Wage Adjustment
- P-4 MAOP Deferral Amortization

36 The Non-settling Parties allege that the Settling Parties excluded them from settlement discussions that occurred between scheduled conferences, and that those discussions ultimately led to the proposed Settlement between Staff and the Company. The Parties' overall positions on the Settlement are summarized below.

37 *Settling Parties.* The Settling Parties argue that this is a "limited issue" rate case to bridge the gap until the Company's next GRC, a multiyear rate plan that will be filed in late 2022 or early 2023. The Settling Parties represent that the Settlement is a compromise between two parties. Additionally, the Settling Parties argue there are many methodologies for calculating depreciation-related expenses in the test year that are likely to produce rates that are just, fair, and reasonable. The Settling Parties explain that the Settlement does not identify which method was selected, but that they agreed to a compromise that recognizes the differences in end of period and 2021 actual depreciation expense.¹⁰

38 In rebuttal testimony, Cascade addresses the Non-settling Parties' opposition to the Settlement. The Company disagrees with AWEC's characterization of the settlement negotiations and asserts that the Non-settling Parties had adequate opportunity to engage in meaningful negotiations.¹¹ Furthermore, Cascade argues that not considering the Settlement would contravene public policy and, because the Commission suspended the

¹⁰ Joint Testimony, Exh. JT-1T at 4:15-21 and 5:1-8.

¹¹ Chiles, Exh. MAC-4T at 3:6-14.

procedural schedule and ordered the Settling Parties to file the Settlement, would also conflict with the Commission's decision to consider the Settlement.¹²

39 In rebuttal testimony, Staff also addresses AWEC's claims that the settlement process was irregular. Staff argues that the Settling Parties' actions were appropriate, and that AWEC has previously joined settlements reached in similar timeframes.¹³ Staff recommends the Commission approve the Settlement with conditions. Staff and Cascade agree that TEP's proposed improvements to the Company's Washington Energy Assistance Fund (WEAF) program, such as increasing eligibility, creating dedicated outreach programs, and annually reviewing program funding levels, will improve bill assistance and should be added as Settlement conditions.¹⁴

40 *AWEC.* AWEC opposes the Settlement and recommends an \$87.4 thousand, or 0.07 percent, increase in revenue requirement. AWEC witness Mullins bases his recommendation on nine adjustments that total approximately \$10.6 million.¹⁵ AWEC describes the settlement negotiation process as irregular, stating that the Non-settling Parties had only begun identifying issues at the February 7, 2022, settlement conference, which was solely a scheduling and discovery discussion. AWEC further asserts that another settlement conference was scheduled for April 5, 2022, but the Settling Parties came to an agreement in the intervening timeframe without including the Non-settling Parties in their discussions. AWEC argues this created a more cumbersome process rather than offering the administrative efficiency that settlements often provide.¹⁶

41 Mullins recommends the Commission should not accept the Settlement as-is and opines on the various procedural outcomes if the Settlement is rejected or approved with conditions. Due to the statutory deadline and the Company's refusal to extend the effective date, Mullins also argues that the Commission could decline to consider the Settlement.¹⁷

42 *Public Counsel.* Public Counsel opposes the Settlement and recommends the Commission reject it as contrary to the public interest because it would impose an

¹² Chiles, Exh. MAC-4T at 3:15-21 and 4:1-2.

¹³ Huang, Exh. JH-1T at 4:13-20 and 5:1-14.

¹⁴ *Id.* at 7:4-19.

¹⁵ Mullins, Exh. BGM-1T at 2: 12-15, 3:1-15, and 4:1-9.

¹⁶ *Id.* at 4:23-26 and 5:1-13.

¹⁷ *Id.* at 6:5-19 and 7:1-3.

unreasonably excessive rate increase on all customers, and would disproportionately impose additional burdens on Highly Impacted Communities and Vulnerable Populations.¹⁸ Public Counsel argues that the Settlement’s revenue requirement includes selective cost increases that did not materialize, objects to the Settlement’s use of end of period valuation, and contends that the Settlement lacks evidentiary support overall.¹⁹ Public Counsel further asserts that Cascade’s actual operating income and utility investment for 2021 show that the revenue requirement increase proposed in the Settlement is not supported by actual known and measurable 2021 changes.²⁰

43 Public Counsel argues that Cascade’s more recent operating results for 2021 demonstrate that the Settlement’s proposed rate increase is excessive. Public Counsel recommends the use of average of monthly averages valuation for rate base coupled with a number of 2021 pro forma adjustments that result in a revenue requirement increase of \$2.6 million.²¹

44 *The Energy Project*. TEP opposes the Settlement and recommends the Commission reject it for two primary reasons. First, TEP argues that the marginal increase of 10.3 percent, which represents a \$2.25 monthly increase on the average customer bill, will create rate shock for low-income customers, and criticizes the Settlement’s failure to communicate the rate or bill impact on customers.²² Second, TEP asserts that the Settlement and supporting testimony do not address, or take any steps to address, equity or the disparate impacts of the rate increase on low-income customers, Highly Impacted Communities, and Vulnerable Populations.

¹⁸ RCW 19.405.020(23) defines “Highly impacted community” as a community designated by the department of health based on cumulative impact analyses in RCW 19.405.140 or a community located in census tracts that are fully or partially on “Indian country” as defined in 18 U.S.C. Sec. 1151. RCW 19.405.020(40) defines “Vulnerable populations” as communities that experience a disproportionate cumulative risk from environmental burdens due to adverse socioeconomic factors, including unemployment, high housing, and transportation costs relative to income, access to food and health care, linguistic isolation, and sensitivity factors such as low birth weight and higher rates of hospitalization.

¹⁹ Public Counsel Post-Hearing Brief ¶¶ 11,14-15

²⁰ Garret, Exh. MEG-1T at 5:5-20.

²¹ *Id.* at 6:1-14, 13:17-21, 14:1-5, and 16:6-13.

²² TEP Post-Hearing Brief ¶¶ 17-18.

II. STANDARD OF REVIEW

45 The Legislature has entrusted the Commission with broad discretion to determine rates
for regulated companies.²³ This broad discretion reflects the quasi-judicial nature of
ratemaking.²⁴

46 The burden of proving that a proposed rate increase is just and reasonable rests with the
Company.²⁵ The burden of proving that the presently effective rates are unreasonable
rests upon any party challenging those rates.²⁶

47 The Commission's standard for reviewing proposed settlements is found in Washington
Administrative Code (WAC) 480-07-750(1): "The commission will approve settlements
when doing so is lawful, the settlement terms are supported by an appropriate record, and
when the result is consistent with the public interest in light of all the information
available to the commission."

48 In reviewing the Settlement, we evaluate:

- (1) Whether any aspect of the proposal is contrary to law,
- (2) Whether any aspect of the proposal offends public policy, and
- (3) Whether the evidence supports the proposed elements of the settlement as
reasonable resolution of the issues at hand.

49 The Commission may decide to:

- (1) Approve the proposed settlement without condition,

²³ Pursuant to RCW 80.28.020, whenever the Commission finds after a hearing that the rates charged by a utility are "unjust, unreasonable, unjustly discriminatory or unduly preferential, or in any wise in violation of the provisions of the law, or that such rates or charges are insufficient to yield a reasonable compensation for the service rendered, the commission shall determine the just, reasonable, or sufficient rates, charges, regulations, practices or contracts to be thereafter observed and in force, and shall fix the same by order."

²⁴ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05 ¶ 44 (May 18, 2021).

²⁵ RCW 80.04.130(1).

²⁶ *WUTC v. Pacific Power and Light Company*, Cause No. U-76-18 (December 29, 1976) (internal citations omitted).

(2) Approve the proposed settlement subject to condition(s), or

(3) Reject the proposed settlement.²⁷

50 WAC 480-07-750 provides that if the Commission approves a proposed settlement without condition, a settlement is adopted as the Commission’s resolution of the proceeding. As we observed in Avista Corporation’s 2008 GRC:

If we approve the proposed settlement subject to one or more conditions, settling parties have an opportunity to give notice, within seven days, that they find the condition(s) unacceptable and withdraw from the Settlement. If that occurs, or if we reject a proposed settlement, our rules provide that the proceeding will return to its posture as of the day before the settlement was filed ... [and] we will conduct such further process as is required to allow fully adjudicated results considering the parties’ respective litigation positions and due process rights.

In reaching a decision, we emphasize that our purpose is to determine whether the Settlement terms are lawful and in the public interest. We do not consider the Settlement’s terms and conditions to be a “baseline” subject to further litigation.²⁸

51 In other words, if the Non-settling Parties demonstrate that the Settlement’s terms are contrary to the public interest, we may modify the Settlement to ensure that it results in a fair, just, reasonable, sufficient, and equitable outcome.

52 We start by discussing how we envision an equitable outcome. The consideration of equity in our public interest analysis was codified by recent legislation. RCW 80.28.425(1) provides that the Commission, in determining the public interest, may consider such factors *inter alia* as environmental health and equity. Additionally, the Clean Energy Transformation Act (CETA) recognizes and finds that the public interest includes but is not limited to the “equitable distribution of energy benefits and reduction of burdens to vulnerable populations and highly impacted communities; long-term and short-term public health, economic, and environmental benefits and the reduction of costs and risks; and energy security and resiliency.”²⁹ The statute goes on to express the Legislature’s intent that “there should not be an increase in environmental health impacts

²⁷ *WUTC v. Avista Corp.*, Dockets UE-080416 and UG-080417 (consolidated), Order 08, ¶ 18.

²⁸ *Id.* at ¶¶ 19-20.

²⁹ RCW 19.405.010(6).

to highly impacted communities.”³⁰ Although CETA applies to electric utilities only, its objective and language are instructive to the Commission’s regulatory work generally as we clarify our definition of “public interest” to include equity considerations.

53 We also recognize that RCW 80.28.425(1) applies to multiyear rate plans filed on or after January 1, 2022, and that the instant case was filed prior to the new law taking effect. Nevertheless, the two multiyear rate plans currently pending before the Commission will not be resolved in time for Cascade to prepare and file its first multiyear rate plan, which the Company intends to do by late 2022 or early 2023.³¹ Moreover, Cascade expressed in its post-hearing brief that there is a “current lack of specific guidance” on equity.³² In light of these factors, we define and discuss equity at a high level in this Order to clarify the Commission’s definitions and expectations. We begin our discussion by looking at the broader context of Washington state governmental policy.

54 The Legislature established Washington Office of Equity in 2020 for the purpose of promoting access to equitable opportunities and resources that reduce disparities and improve outcomes statewide across state government. In doing so, it set out the following principles of equity:

- Equity requires developing, strengthening, and supporting policies and procedures that distribute and prioritize resources to those who have been historically and currently marginalized, including tribes;
- Equity requires the elimination of systemic barriers that have been deeply entrenched in systems of inequality and oppression; and
- Equity achieves procedural and outcome fairness, promoting dignity, honor, and respect for all people.³³

55 The statute states that the work of the Office of Equity is intended to complement, though not supplant, the work of statutory commissions.³⁴ To that end, the Commission may look

³⁰ *Id.*

³¹ Puget Sound Energy’s pending multiyear rate plan in Dockets UE-220066 and UG-220067 has a statutory effective date of January 1, 2023, and Avista Corporation’s pending multiyear rate plan in Dockets UE-220053 and UG-220054 has a statutory effective date of December 22, 2022.

³² Cascade Post-Hearing Brief ¶ 51.

³³ RCW 43.06D.020(3)(a).

³⁴ RCW 43.06D.020(3)(b).

to this statutory language for guidance on defining equity as it seeks to infuse principles of equity into its existing regulatory framework. By this Order, we adopt the principles spelled out in that statute, and commit to ensuring that systemic harm is reduced rather than perpetuated by our processes, practices, and procedures.

56 Integral to this work is exploring the concept of energy justice and its core tenets to advance our goal of achieving equity in Washington energy regulation. Energy justice is focused on: (1) ensuring that individuals have access to energy that is affordable, safe, sustainable, and affords them the ability to sustain a decent lifestyle; and (2) providing an opportunity to participate in and have meaningful impact on decision-making processes. The core tenets of energy justice are:

- Distributional justice, which refers to the distribution of benefits and burdens across populations. This objective aims to ensure that marginalized and vulnerable populations do not receive an inordinate share of the burdens or are denied access to benefits.
- Procedural justice, which focuses on inclusive decision-making processes and seeks to ensure that proceedings are fair, equitable, and inclusive for participants, recognizing that marginalized and vulnerable populations have been excluded from decision-making processes historically.
- Recognition justice, which requires an understanding of historic and ongoing inequalities and prescribes efforts that seek to reconcile these inequalities.
- Restorative justice, which is using regulatory government organizations or other interventions to disrupt and address distributional, recognitional, or procedural injustices, and to correct them through laws, rules, policies, orders, and practices.³⁵

³⁵ See generally Jenkins, K., McCauley, D., Heffron, R., Stephan, H., & Rehner, R., Energy Justice: A Conceptual Review. *Energy Research & Social Science* 11, 174-82 (2016). See also McCauley, D., Heffron, R., Stephan, H. & Jenkins, K. Advancing Energy Justice: The Triumvirate of Tenets. *International Energy Law Review*, 32, 107-110 (2013); and Carley & Konisky, The Justice and Energy Implications of the Clean Energy Transition. *Nature Energy*, 5, 596-577 (2020).

- 57 The Commission is working to integrate equity and access considerations consistently throughout our regulatory activities.³⁶ This involves “active and intentional efforts to ensure all individuals and communities can participate in policy development activities that impact their daily lives,”³⁷ and ensuring that our efforts “seek to foster equity for marginalized communities, including addressing historic underinvestment and exclusionary policies and practices that have allowed inequity to flourish.”³⁸
- 58 So that the Commission’s decisions do not continue to contribute to ongoing systemic harms, we must apply an equity lens in all public interest considerations going forward.³⁹ Recognizing that no action is equity-neutral, regulated companies should inquire whether each proposed modification to their rates, practices, or operations corrects or perpetuates inequities. Companies likewise should be prepared to provide testimony and evidence to support their position. Meeting this expectation will require a comprehensive understanding of the ways in which systemic racism and other inequities are self-perpetuating in the existing regulatory framework absent corrective intervention.⁴⁰ It is incumbent upon regulated companies to educate themselves on topics related to equity just as it is incumbent upon the Commission to do the same.
- 59 The Commission’s guidance in this Order is not comprehensive, and we will expand upon our discussion in future proceedings. However, we want to express clearly our expectation that the Company will integrate equity into each of its proposals going

³⁶ On March 21, 2022, Governor Inslee issued Executive Order 22-04 Implementing the Washington State Pro-Equity Anti-Racism (PEAR) Plan and Playbook. Executive Order 22-04 directs all state agencies to work with the Office of Equity to co-create the state’s first five-year PEAR Plan and Playbook, designed to bridge opportunity gaps and reduce disparities, embedding PEAR into every action across state government. See [Executive Order 22-04](#).

³⁷ *Id.*, pp. 7-8.

³⁸ *Id.*

³⁹ State law defines “equity lens” as providing consideration to those characteristics for which groups of people have been historically, and are currently, marginalized to evaluate the equitable impacts of an agency’s policy. See RCW 43.06D.010(4). See also RCW 49.60.030.

⁴⁰ As the California Public Utilities Commission recently stated, “[P]ublic policies, institutional practices, cultural representations, and other norms work in various, often reinforcing ways to perpetuate racial group inequity. It identifies dimensions of our history and culture that have allowed privileges associated with ‘whiteness’ and disadvantages associated with ‘color’ to endure and adapt over time. Structural racism is not something that a few people or institutions choose to practice. Instead, it has been a feature of the social, economic, and political systems in which we all exist.” CPUC Environmental & Social Justice Action Plan, Version 2.0, p. 71, April 27, 2022, citing <https://aspeninstitute.org/blog-posts/structural-racism-definition>.

forward. Accordingly, we decline to provide specific programmatic guidance beyond the equity provisions we approve by this Order and retain our discretion to evaluate equity on a case-by-case basis.

60 Applying an equity lens in our public interest analysis, we approve the Settlement subject to conditions that address equity concerns raised by the Non-settling Parties as discussed throughout this Order.

III. CONTESTED ISSUES

61 The Commission received pre-filed testimony and exhibits from 13 witnesses, as well as post hearing briefs from all parties. In light of the parties' arguments, we address the Settlement process and whether the Settlement itself is lawful, supported by the record, and in the public interest as a threshold issue.

62 We address each of the contested issues in turn, below.

1. Settlement Process and Overall Settlement Terms

63 The Settling Parties argue that the proposed settled-upon rate increase is fair, just, reasonable, and sufficient, maintaining that Cascade's initial testimony supports a revenue deficiency based on the modified historical 2020 test year with limited adjustments.⁴¹ The Settling parties further contend that the settlement process was fair and inclusive, explaining that they engaged in informal negotiations with each other and the Non-settling Parties following formal discussions in February, and that they informed the Non-settling Parties as soon as they reached a settlement in principle.⁴² According to the Non-settling Parties, Cascade and Staff strived to reach consensus with the other parties and did not reach a multiparty settlement without first speaking to the other parties and concluding that a full settlement on reasonable terms was not possible.⁴³

64 The Non-settling Parties contest the procedural fairness of the proposed Settlement. In opposition testimony, AWEC argues that because Staff and Cascade's agreement was formed before the final settlement negotiation meeting was scheduled, the Non-settling Parties did not have an appropriate opportunity to negotiate their proposed adjustments.⁴⁴

⁴¹ Settling Parties Post-Hearing Brief ¶ 2.

⁴² *Id.* at ¶¶ 59-60.

⁴³ *Id.* at ¶ 63, citing Settling Parties' Objecting to Bench Request No. 002 (June 6, 2022).

⁴⁴ Mullins, Exh. BGM-1T 4:23-5:13.

TEP argues that by refusing to extend the suspension date of this proceeding, thus making untenable the consolidation of this case with Docket UG-220198, Cascade placed additional administrative burdens on the Commission and the parties.⁴⁵

65 Additionally, the Non-settling Parties argue that the proposed rate increase is excessive and contrary to the public interest, and, therefore, that the Settling Parties have failed to demonstrate that the proposed rate increase is fair, just, reasonable, and sufficient.⁴⁶

66 Public Counsel contends that the proposed rate increase is not only excessive, but that it “is inequitable because it would disproportionately impose additional burdens on Highly Impacted Communities and Vulnerable Populations.”⁴⁷ TEP additionally submits that the Settlement fails to address the disparate impacts of the rate increase on low-income customers, Highly Impacted Communities, and Vulnerable Populations.⁴⁸

67 TEP documented these impacts by showing that the Washington Department of Health designated Highly Impacted Communities within the five zip codes in Cascade’s service territory with the highest residential arrearages.⁴⁹

68 TEP proposes requiring Cascade to implement changes to the Washington Energy Assistance Fund (WEAF) program to reach more of the Company’s low-income customers’ unmet bill assistance needs.⁵⁰ All Parties voiced support for TEP’s proposals at the evidentiary hearing.

Commission Determination

69 As we determine whether the Settlement is lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to us, we

⁴⁵ TEP Post-Hearing Brief ¶¶ 21-22.

⁴⁶ Public Counsel Post-Hearing Brief ¶¶ 3, 11-12. *See also* TEP Post-Hearing Brief ¶ 3. (“This Settlement is contrary to the public interest because it fails to properly address numerous issues in a timely manner and imposes an excessively large rate increase on customers.”) *See also* AWEC Post-Hearing Brief ¶ 10. (“Cascade failed to present evidence that its proposed rate increase would result in rates that are fair, just, and reasonable.”)

⁴⁷ *Id.* at ¶¶ 11-12.

⁴⁸ TEP Post-Hearing Brief ¶ 19.

⁴⁹ Collins, Exh. SMC-2 at 13.

⁵⁰ TEP Post-Hearing Brief ¶¶ 5-7.

note the circumstances of this Settlement.⁵¹ The Commission's procedural rules define a settlement as an agreement between two or more parties, and include general guidelines on settlement process, including the requirement to include all parties in early settlement conferences.⁵² While there are few specific rules that govern the settlement negotiation process, the Non-settling Parties assert that they were not given a full opportunity to negotiate their positions. We take seriously these complaints about the fairness of the process.

70 Consistent with the Commission's rules governing alternate dispute resolution and settlement, the Commission expects that all parties will have a meaningful opportunity to participate in negotiation processes, which requires parties to extend mutual respect to each other throughout the many proceedings in which they participate together. Parties should have an opportunity to fully present and discuss their issues and positions throughout the negotiation process. To address the need for inclusion and opportunity to participate, the Commission adopted its rule governing participation in early settlement conferences. The rule is intended to avoid the situation of parties being excluded from settlement negotiations when such discussions are initiated prior to a prehearing conference and specified schedule for settlement negotiations.⁵³ The same expectation of inclusion and meaningful opportunity to participate should apply in settlement negotiations that occur following a prehearing conference.

71 In addition, because Cascade continued to characterize this case as a "limited issue" rate case and requested an expedited procedural schedule, the Company inappropriately attempted to limit the scope of this proceeding. The Commission declined to adopt the expedited process the Settling Parties proposed in the interest of preserving the due process rights of the Non-settling Parties.

⁵¹ WAC 480-07-750(1)

⁵² WAC 480-07-700(5) and (6). The rules provide, in part, that "[s]ettlement conferences must be informal and without prejudice to the rights of the parties. ... Any party and any person who has filed a petition to intervene may participate in an initial or early settlement conference as defined in this section. An intervenor's participation in a settlement conference is limited to the interests supporting its intervention, except by agreement of other participants in the conference. No party is required to attend a settlement conference, but any party that attends and participates must make a good faith effort to resolve one or more disputed issues in which the party has a substantial interest."

⁵³ *Id.*

- 72 To clarify, there is no Commission rule that provides for a “limited issue” rate case.⁵⁴ Pursuant to WAC 480-07-505, any request by a company to alter its gross annual revenue from activities the Commission regulates by 3 percent or more constitutes a general rate proceeding. Because the burden of proof lies with the company that makes the filing, it may, of course, choose to limit the issues it brings forward for resolution.⁵⁵ Opposing parties may, however, raise any relevant issues, whether addressed in the filing or resulting settlement, for the Commission to consider.⁵⁶
- 73 When assessing whether the Settlement is lawful, in the public interest, and supported by the record, we evaluate three questions: whether any aspect of the proposal is contrary to law; whether any aspect of the proposal offends public policy; and whether the evidence supports the proposed elements of the settlement as reasonable resolution of the issues at hand.
- 74 We conclude that no aspect of the Settlement is contrary to law. With respect to public policy considerations and our obligation to safeguard the public interest, however, we are aware that the Settlement is between only two parties, and that the Settlement fails to address equity or provide customer bill impacts.⁵⁷ Reaching equitable outcomes will require diligent and intentional work on the part of utilities and other parties to GRCs,

⁵⁴ The Commission approved a general rate increase characterized as an “Expedited Rate Filing” (ERF) for the first time in consolidated Dockets UE-130137 and UG-130138 et al. for Puget Sound Energy (PSE) based on a novel approach identified in the Commission’s final order in PSE’s 2011 GRC. In that order, the Commission expressly endorsed Commission Staff’s conceptual proposal for an ERF to address regulatory lag. *See WUTC v. Puget Sound Energy*, Dockets UE-111048 and UG-111049, Final Order 08 ¶¶ 505-507 (May 7, 2012). PSE brought forward an alternative proposal in its 2013 GRC that was limited in scope and resulted in a 1.6 percent increase to electric rates and a 0.1 percent decrease to natural gas rates. Similarly, in PSE’s 2017 GRC in consolidated Dockets UE-170033 and UG-170034, the Commission approved a multiparty settlement agreement in which the settling parties agreed that PSE could, within one year of the date of the Commission’s final order, file an ERF for limited rate relief consistent with the process and procedures in PSE’s 2013 GRC and the 2017 multiparty settlement. In PSE’s 2018 ERF, the Commission approved a joint settlement agreement supported by all parties that resulted in a 2.9 percent increase to natural gas rates and no change to electric rates. *See WUTC v. Puget Sound Energy*, Dockets UE-180899 and UG-180900, Order 05 (Feb. 21, 2019). Notably, neither case resulted in a rate increase greater than three percent. Also, in both cases, the Commission either endorsed the concept of an ERF or authorized PSE to file an ERF by preceding orders.

⁵⁵ RCW 80.04.130.

⁵⁶ WAC 480-07-730(3)(a) referencing rights in WAC 480-07-740 (3)(c).

⁵⁷ RCW 80.28.425(1).

including fostering inclusive settlement negotiations. In this case, the Non-settling Parties have persuasively demonstrated that, absent additional conditions, the Settlement would create unfair, unreasonable, unjust, and inequitable results.

75 Accordingly, we accept TEP's three proposals to improve the WEAFF program's ability to reach more customers.⁵⁸ These proposals are to: (1) raise the income eligibility threshold to 80 percent of area median household income (AMI) or 200 percent of the federal poverty level, whichever is higher; (2) require Cascade's Low-Income Advisory Group to annually review funding levels to ensure the WEAFF program has adequate funds available; and (3) establish a "trusted messenger" community-based outreach program.⁵⁹

76 To establish the community-based outreach program, we authorize a budget of \$73,000 in the first year and up to 5 percent of the annual WEAFF program budget each year. This pilot will run for three years, which will allow Cascade and its Advisory Group to (1) use a collaborative and deliberate process to design the program, (2) establish partnerships with community-based organizations, (3) administer the program long enough to see results, and (4) determine if any refinements are warranted.

77 The solution TEP proposes addresses an issue central to achieving equitable outcomes: engaging directly with those communities most impacted by structural inequities. As the nonprofit organization Clean Energy Action observes, "truly equitable policy and research must be informed by conversations with impacted communities as early in the process as possible."⁶⁰ Funding Cascade's community-based outreach program is a valuable first step that will enhance the Company's ability to address inequities going forward.

78 We direct the Company to keep the Commission informed of this process by filing with the Commission the same updates it shares with its Advisory Group.

79 We further require Cascade to provide, in both its initial compliance filing and the collaborative compliance filing discussed in Section 3.h. *infra*, the customer bill impacts by customer class, including both the percentage increase to billed rates for all customer classes and the dollar amount increase per month for the average customer. In the

⁵⁸ Collins, Exh. SMC-1T, at 8:16-17:12.

⁵⁹ Chiles, Exh. MAC-4T, at 31:20-32:2. *See also* Collins, Exh. SMC-1T, at 8:16-17:12 (Cascade does not object to TEP's proposal).

⁶⁰ Marguerite Behringer, [Equity at the Public Utility Commissions: Recent Research and Lessons](https://www.cleanenergyaction.org/blog/equity-research-2021), (Feb. 22, 2022), at <https://www.cleanenergyaction.org/blog/equity-research-2021>.

following sections we address whether the evidence supports the proposed elements of the Settlement as a reasonable resolution of the issues and make adjustments to the revenue requirement to achieve a fair, just, reasonable, sufficient, and equitable outcome.

80 We note that, under the Commission’s procedural rules, if we condition our approval of a settlement on terms that are not included in the settlement agreement, as we do here, the Commission must provide the parties with an opportunity to accept or reject the Commission’s conditions.⁶¹ If either settling party rejects any of the conditions or does not unequivocally and unconditionally accept all of the conditions set out in this Order, the Commission will notify the parties that it deems the Settlement to be rejected, which returns the adjudication to its status at the time the Commission suspended the procedural schedule for the purpose of considering the settlement subject to compliance with any statutory deadline.⁶² Because the statutory deadline in this case is August 31, 2022, the Commission is unable to complete this proceeding absent the Company’s agreed extension of the suspension date.⁶³ Accordingly, if either of the Settling Parties objects to any of the conditions in this Order, the Settlement will be deemed denied on the basis that it proposes rates that are not fair, just, reasonable, equitable, or sufficient.

2. Capital Structure

81 The Settling Parties support the Company’s initial request to maintain the hypothetical capital structure currently authorized in Docket UG-200568 (Cascade’s last GRC).⁶⁴ AWEC opposes the Settlement’s continuation of Cascade’s current capital structure authorized in Cascade’s last GRC.⁶⁵ Table 1, below, summarizes the parties’ positions on the appropriate capital structure for the Company’s weighted average cost of capital (WACC).

⁶¹ WAC 480-07-750(2)(b).

⁶² WAC 480-07-750(2)(b)(ii); WAC 480-07-750(2)(c).

⁶³ WAC 480-07-750(2)(c).

⁶⁴ Full Multiparty Settlement Stipulation, ¶ 9.

⁶⁵ *WUTC v. Cascade Natural Gas Corporation*, UG-200568 Order 05 ¶ 15 (May 18, 2021).

Table 1 – Parties’ Positions on Cascade’s Capital Structure

	Debt Percentage	Equity Percentage
Settling Parties	50.9	49.1
AWEC	53.0	47.0

82 *Settling Parties*. In its initial and rebuttal testimony, Cascade states that it did not propose a change to its authorized capital structure primarily because the Company intended to limit issues for consideration.⁶⁶ Additionally, Cascade argues that the proposed capital structure was fully litigated in Docket UG-200568 and is still appropriate.⁶⁷ In that case, the Commission approved a capital structure comprised of 50.9 percent debt and 49.1 percent equity.

83 In Cascade’s initial testimony, Company witness Chiles argues that circumstances surrounding Cascade’s current capital structure remain similar to those present in the Company’s last GRC wherein the Commission determined that maintaining an equity ratio at 49.1 would provide stability to the Company’s capital structure in the face of increased gas costs.⁶⁸

84 Because Cascade is required to provide safe and reliable services, the Company explains that part of its planning considers financial needs related to investments. It says the Company’s goal is to maintain an optimal capital structure of 50 percent debt and 50 percent equity.⁶⁹ Company witness Nygard reports that Cascade issued \$50 million of long-term debt on June 15, 2022, to fund its capital program.⁷⁰ In addition to this new debt issuance, Cascade asserts that its parent company has and will continue to infuse equity to maintain a 50/50 percent capital structure.⁷¹

85 In its post-hearing brief submitted on behalf of the Settling Parties, Cascade reasserts that its parent company has and will continue to add equity infusions to meet its goal of

⁶⁶ Chiles, Exh. MAC-4T at 4:9-19; Nygard, Exh. TJN-1T at 4:1-20

⁶⁷ Nygard, Exh. TJN-1T at 3:4-14.

⁶⁸ Chiles, Exh. MAC-4T at 4:5-19.

⁶⁹ *Id.* at 5:1-6:5.

⁷⁰ Nygard, TR 102:13-103:12.

⁷¹ Nygard, Exh. TJN-1T at 4:1-20.

maintaining a capital structure of 50 percent debt and 50 percent equity.⁷² In its brief, Cascade updated its settled cost of debt from 4.54 percent to 4.59 percent based on the June 2022 debt issuance to reflect its response to the Commission's Bench Request No. 4 (BR-4). The Company's update to its cost of debt results in a rate of return (ROR) of 6.96 percent, three basis points higher than the 6.93 percent ROR proposed by the Settlement.⁷³

86 *AWEC.* AWEC witness Mullins recommends updating the capital structure to 53.0 percent debt and 47.0 percent equity.⁷⁴ AWEC argues that the capital structure needs to be updated to reflect the June 2022 debt issuance so that the Company's ratemaking capital structure is more consistent with its actual capital structure. Because the Settling Parties agree to update the cost of debt, AWEC argues that the capital structure should also be updated to reflect the new debt issuance.⁷⁵

87 Mullins contends that the Settlement's proposed cost of capital is generally consistent with the Company's last GRC with one exception:⁷⁶ Cascade has only updated its cost of debt to reflect the issuance of new debt.⁷⁷ In response to AWEC's Data Request No. 63, the Company provided its 2020 FERC Form 2. Within the financial statement notes, the ratio of total debt to total capitalization was 53 percent as of December 31, 2020, a figure confirmed in the Company's response to BR-4. Further, Mullins argues that Company witness Nygard testifies that the amount of debt as compared to the amount of rate base yields a result of 58.5 percent debt.⁷⁸

88 Mullins concludes by arguing that a hypothetical capital structure does not need to be entirely "divorced" from the Company's actual capital structure. Rather, Mullins contends, actual structure can be used to inform an optimal hypothetical capital structure. Ultimately, Mullins asserts, the approved capital structure must balance the interests of

⁷² Settling Parties Post-Hearing Brief, ¶27. *See also* Nygard, Exh. TJN-1T at 4:7-20.

⁷³ *Id.*, at ¶28. *See also* Nygard, Exh. TJN-1T at 2:6-15.

⁷⁴ Mullins, Exh. BGM-1T at 9:19-21.

⁷⁵ *Id.* at 7:16-8:4.

⁷⁶ *Id.* at 7:6-15 (Recommending an overall proposed cost of capital of 6.93 percent based on the components: capital structure 50.9 percent debt and 49.1 percent equity, 4.54 percent cost of debt and 9.4 percent return on equity).

⁷⁷ *Id.*

⁷⁸ Mullins, Exh. BGM-1T at 8:5-14.

shareholders and ratepayers, and, using Cascade's ratio of total actual debt to total capitalization as shown in its 2020 FERC Form 2, will result in a capital structure that is sufficient to provide financial security and keep rates reasonable for ratepayers.⁷⁹

Commission Determination

89 We agree with AWEC's proposal. Selectively updating the cost of debt based on the issuance of new debt while ignoring changes to the resulting hypothetical debt percentage results in unfair impacts to ratepayers. Additionally, Cascade offers no rebuttal testimony directly related to using the debt percentage in its 2020 FERC Form 2, nor has the Company provided evidence to demonstrate that it is maintaining a 50/50 capital structure either through testimony or its response to BR-4.

90 Cascade's capital structure has remained unchanged for several years (see Table 2, below). The capital structure proposed by the Settlement is the same as that authorized in the Company's last GRC. Importantly, this capital structure was the same as that used in the Settlement in Cascade's 2019 GRC,⁸⁰ which was similar to the capital structure authorized in Cascade's 2017 GRC.⁸¹

⁷⁹ *Id.* at 8:15-9:18. Mullins quotes *WUTC v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 39 (Mar. 25, 2011):

“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.”

⁸⁰ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-190210, Final Order 05 (Feb. 3, 2020).

⁸¹ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-170929, Final Order 06 (July 20, 2018).

Table 2 – Authorized Cost of Capital

Docket	Debt/Equity	ROE	COD	ROR
Authorized				
170929 (2018)	51/49	9.4	5.295	7.31
190210 (2020)	50.9/49.1	9.4	5.155	7.24
200568 (2021)	50.9/49.1	9.4	4.589	6.95
Settlement Proposal				
210755	50.9/49.1	9.4	4.59 ⁸²	6.96
AWEC Proposal				
210755	53/47	9.4	4.54	

- 91 Establishing a capital structure for ratemaking purposes requires the Commission to strike an appropriate balance between debt and equity on the bases of economy and safety.⁸³ The economy of lower cost debt, on which the Company has a legal obligation to pay interest, must be balanced against the safety of higher cost common equity on which the Company has no legal obligation to pay a return at any set time.⁸⁴
- 92 The Commission has used actual, pro forma, or imputed capital structures to strike the right balance and determine overall rate of return on a case-by-case basis.⁸⁵ In past cases, we have used a hypothetical capital structure primarily as a means to address financial hardship or tight capital markets.⁸⁶

⁸² The Settlement accepts the Company’s initial testimony to update cost of debt for the 2022 issuance of new long-term debt. In response to BR-4, Cascade updated its cost of debt to reflect the 2022 issuance of debt in June from 4.54 to 4.59 percent. No party in its brief contested this update.

⁸³ *WUTC v. Puget Sound Energy*, Dockets UG-040640 and UE-040641 (consolidated), Order 06 ¶ 27 (Feb. 18, 2005) (citation omitted). *See also WUTC v. Avista Corporation*, Dockets UE-170485, UG-170486, UE-171221, and UG-171222 (consolidated), Final Order 07/02 ¶ 109 (April 26, 2018).

⁸⁴ *WUTC v. Puget Sound Energy*, Dockets UG-040640 and UE-040641 (consolidated), Order 06 ¶ 27 (February 18, 2005).

⁸⁵ *Id.*

⁸⁶ *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-170485 and UG-170486 (consolidated), Order 07 ¶ 110 (April 26, 2018).

- 93 In this case, we find that AWEC’s proposal of 53.0 percent debt and 47.0 percent equity is appropriate. Since 2018, Cascade’s equity ratio has fluctuated between 46.6 percent and 49.1 percent.⁸⁷ As discussed above, Cascade’s hypothetical capital structure has remained unchanged for several years. We agree with AWEC that the Company selectively updated its cost of debt while ignoring changes to its debt percentage in response to the June 2022 debt issuance. Additionally, unlike in previous cases, the Settling Parties have failed to show that financial burdens or market forces warrant continuing use of the previously authorized hypothetical capital structure.
- 94 Furthermore, though Cascade intended to limit issues in this case, there are no rules or laws supporting the Company’s characterization of this case as a “limited issue” rate case. The Company suggests that the Commission’s final order in the Company’s last GRC limits the Commission’s ability to adjust the Company’s authorized capital structure in this proceeding. This is a new case, however, and the burden is the Company’s. We do not agree that Cascade’s hypothetical capital structure should remain unchanged solely because the Company has been filing annual rate cases since 2019 and could file a multiyear rate plan GRC by the end of 2022 or early 2023.
- 95 Considering all the evidence, we find that reducing the Company’s equity ratio to 47.0 percent strikes an appropriate balance between the principles of safety and economy and results in the most fair, just, equitable, and reasonable outcome. This determination, in combination with the uncontested cost of debt of 4.59 percent and uncontested return on equity of 9.4 percent,⁸⁸ results in an authorized rate of return of 6.85 percent as shown in the table below.

⁸⁷ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05 ¶ 75 (May 18, 2021).

⁸⁸ Maintaining Cascade’s current ROE of 9.4 percent is both reasonable and consistent with the ROEs authorized in recent cases for other regulated utilities in Washington. *See WUTC v. Puget Sound Energy*, Dockets UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226, UE-190991, & UG-190992 (consolidated) Final Order 08/05/03 (July 8, 2020) authorizing a 9.4 percent ROE for Puget Sound Energy. *See also WUTC v. Pacific Power d/b/a Pacific Power & Light Company*, Dockets UE-191024, UE-190750, UE-190929, UE-190981, UE-180778 (consolidated) Final Order 09/0712 (Dec. 14, 2020) authorizing a 9.5 percent ROE for Pacific Power d/b/a PacifiCorp. *See also WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-200900, UG-200901, and UE-200894 (consolidated) Final Order 08/05 (Sept. 27, 2021) authorizing a 9.4 percent ROE for Avista Corporation d/b/a Avista Utilities. *See also WUTC v. Northwest Natural Gas, d/b/a NW Natural*, Docket UG-181053, Order 06 (Oct. 21, 2019) authorizing an ROE of 9.4 percent for Northwest Natural Gas d/b/a NW Natural. The

Table 3 – Cascade’s Authorized Rate of Return (in percentage)

	Capital Structure	Cost	WACC*
Common Equity	47.0	9.40	4.42
Long-term Debt	53.0	4.59	2.43
Total	100.0		6.85

* Weighted Average Cost of Capital

3. Revenue Requirement Adjustments

96

The following table summarizes the revenue requirements proposed by each party. See Appendix B for the Commission’s revenue requirement decision. Below we discuss the individual adjustments each party proposes to produce their recommendations.

Table 4 – Revenue requirement increases supported by each party.⁸⁹

Natural Gas Operations				
Summary of Party Revenue Requirement Models				
	CNG Direct	Multiparty Settlement	Public Counsel Opp.	AWEC Opp.
Revenue Increase Required (dollars)	\$13.7 million	\$10.7 million	\$2.6 million	\$87.4 thousand
W/EOP – Alternative (dollars)			\$5.2 million	
Rate of Return (percent)	6.93%	6.96%	6.93%	6.83%

Commission approved a settlement in Northwest Natural’s subsequent general rate case in consolidated Dockets UG-200994, UG-200995, UG-200996, and UG-210085 that did not disclose the agreed-upon ROE. The Commission noted in its final order in that case that the Company’s initial filing requested an ROE of 9.4 percent, and that the Settlement contained a lower rate of return than the Company originally proposed.

⁸⁹ TEP did not submit a revenue requirement calculation.

a. Revenue Requirement Calculation Using a Pro Forma Study Based Exclusively on the 2020 Test Year

97 A utility’s revenue requirement is based on a modified historical test year (including both restating and pro forma adjustments), which starts with the selection of an unadjusted test year. Pursuant to WAC 480-07-510(1), companies must include in their filing a results of operations statement showing test year actual results and any restating and pro forma adjustments in columnar format that support the company’s general rate request. The rule does not provide guidance for selecting an appropriate test year. Public Counsel is the only party that takes issue with Cascade’s test year.

98 *Settling Parties.* In direct testimony, Cascade proposes using a 2020 test year because it is “the most recent, appropriate, and supportable period to represent the period in which rates will be in effect.”⁹⁰ In rebuttal testimony, Cascade witness Chiles claims that Public Counsel has essentially recommended replacing the Settlement with an entirely new case at the end of the proceeding.⁹¹ Cascade argues that there are technical issues with Public Counsel’s proposal based on the limited time the Company had for review.

99 First, the Company argues that Public Counsel failed to apply the approved 5-year average methodology for employee incentives approved in Cascade’s last GRC. Cascade argues this methodology would increase Public Counsel’s revenue requirement by approximately \$0.3 million.⁹²

100 The Company argues that Public Counsel’s restated revenue requirement contains calculation errors related to both customer growth and CRM revenue, and that the proposal does not account for decoupling offsetting therms within the weather normalization adjustment. Cascade contends that correcting for these errors would increase Public Counsel’s revenue requirement by approximately \$4.2 million.⁹³ Cascade further claims that Public Counsel rolls forward the “fully adjusted 2020” Settlement results to 2021 unadjusted books and, finally, that Public Counsel did not update the 2020 conversion factor (*i.e.*, grossing up revenue requirement for revenue sensitive items) for

⁹⁰ Chiles, Exh. MAC-1T at 2:16-18.

⁹¹ Chiles, Exh. MAC-4T at 28:8-13.

⁹² *Id.* at 28:14-21. (Cascade also reminds the Commission that Public Counsel argued and prevailed on the 5-year average methodology in Docket UG-200568).

⁹³ *Id.* at 29:1-14.

2021. Cascade contends that although this has a minor impact, it still highlights the flaws in the execution of Public Counsel's proposal.⁹⁴

101 Cascade argues that if these errors were corrected, Public Counsel's EOP 2021 revenue deficiency recommendation would increase from \$5.2 million to \$12.6 million, which demonstrates that the 2020 test year is appropriate and representative.⁹⁵ Cascade argues that there could be more errors and flaws with Public Counsel's proposal, but it is impossible to discover them all without completing an entirely new GRC using 2021 as the test year.

102 The Company maintains that the 2020 test year and Settlement revenue requirement are "appropriate and representative."⁹⁶ Cascade argues that Public Counsel's proposal cherry-picked adjustments because Public Counsel did not recognize "offsetting" adjustments that would have benefited the Company.⁹⁷

103 *Public Counsel.* In its brief, Public Counsel argues that Cascade mischaracterizes its position with respect to the test year. Public Counsel contends that its witness Garrett argued only that the 2020 test year with limited adjustments was a poor predictor of what Cascade would need to earn its authorized return and explained why actual 2021 results are helpful in evaluating the Company's request based on a 2020 test year. In other words, Public Counsel believes the Commission can evaluate the reasonableness of using a 2020 test year by looking at actual 2021 results, which demonstrates that 2020 was a poor predictor of the subsequent year because it included major business shutdowns due to the COVID-19 pandemic. Because Public Counsel believes that 2020 is unlikely to be an accurate representation of the rate effective period, it recommends looking to actual 2021 results and proposed additional changes to the test year for 2021.⁹⁸ The following table compares the response testimony revenue requirements for Public Counsel's average of monthly averages (AMA) results and, in the alternative, end of period (EOP) results as compared to the Settlement:

⁹⁴ *Id.* at 30:7-12.

⁹⁵ *Id.* at 30:19-22.

⁹⁶ *Id.* at 30:21-22.

⁹⁷ *Id.* at 31:1-5.

⁹⁸ Garrett, Exh. MEG-1T at 8:3-15.

Table 5 – Revenue Requirement Comparison of Test Year and AMA vs. EOP (\$ in millions)

	Public Counsel (AMA)	Public Counsel (EOP)	Settlement (EOP)
Test Year	2021	2021	2020
Revenue Requirement	\$2.6	\$5.2	\$10.7

104 Public Counsel argues that the 2021 results of operations demonstrates that the proposed Settlement revenue requirement is excessive,⁹⁹ and that the revenue requirement related to the 2020 test year is unreasonable because it does not represent the investment and expense levels for the Company going forward. Therefore, Public Counsel asserts, the Settlement will not result in just and reasonable rates. Using unadjusted 2020 test year results of operations to calculate revenue requirement, Public Counsel contends that the Company’s revenue deficiency should be closer to \$5.9 million.¹⁰⁰

105 Public Counsel argues that Cascade experienced a several million dollar increase in net operating income for 2021, that rate base increased from \$420 million to \$487 million, and that the combination of these two increases results in an AMA 2021 unadjusted test year revenue deficiency of \$6.7 million. Public Counsel argues that this demonstrates that the Settlement revenue requirement of \$10.7 million is excessive and overstated.¹⁰¹

106 In its attempt to assess and further adjust the modified historical 2020 test year, Public Counsel included all the Settlement’s proposed adjustments and argues that its proposal also includes the improved 2021 operating results. Public Counsel adjusted the Settlement to arrive at its recommended AMA 2021 test year revenue requirement increase of \$2.6 million.¹⁰² In the alternative, Public Counsel makes adjustments to arrive at an EOP 2021 adjusted results of operations for a proposed revenue requirement increase of \$5.2 million.¹⁰³

⁹⁹ Garrett, Exh. MEG-1T at 5:14-20.

¹⁰⁰ *Id.* at 8:16-9:2 (providing the following calculation in footnote 11 for the \$5.9 million: “Revenue Deficiency = (Rate Base * Authorized Return less Net Operating Income)/Net of Tax Factor. (\$420,487,637*.0693-24,683,915)/.7551 = \$5,901,348”).

¹⁰¹ *Id.* at 9:3-10.

¹⁰² *Id.* at 6:8-7:2 and 9:11-20.

¹⁰³ *Id.* at 7:3-6.

107 Public Counsel ultimately argues that the Settlement should be rejected because it is grossly inflated based on 2020 results. Because test years are adjusted to reflect the rate effective period and 2021 data is available, Public Counsel witness Garrett argues there is no need to use 2020 to predict 2021 results.¹⁰⁴ According to Garrett, 2021 is closer to the rate effective period and is thus a better predictor of cost when rates go into effect. Additionally, Garrett argues that 2020, not 2021, suffers from abnormal COVID results that neither the Company nor the Settling Parties attempted to normalize.¹⁰⁵

Commission Determination

108 The Commission places both the burden of production and the burden of persuasion on the utility seeking a rate increase. Before a utility is allowed to increase rates, we require that the utility present the results of a *modified* historical test year with separately stated restating and pro forma adjustments, where pro forma adjustments follow both the known and measurable and used and useful standards to demonstrate a revenue deficiency during the rate effective year.¹⁰⁶ The Commission considers whether the Company under-earned during the historical test year based on restated results of operations, and, in light of that information, whether the Company is likely to under-earn during the rate-effective period.

109 While WAC 480-07-510 does not provide guidance for selecting an appropriate test year, we have previously made clear our discontent with the use of a stale test year, explaining in Avista's 2020 GRC that "[u]tilities generally control the timing of a GRC filing and the test year upon which it is based. The Commission, however, retains authority to determine what weight to assign an inappropriate test year when determining what rates are fair, just, reasonable, and sufficient."¹⁰⁷

110 We are not persuaded that the 2020 test year is the most recent, appropriate, or supportable period to represent the rate effective period. First, 2020 had major economic impacts related to the COVID-19 pandemic that are unlikely to reoccur in 2022. Second, neither the Company nor the Settling Parties provide adequate adjustments or sufficiently

¹⁰⁴ *Id.* at 10:4-11:2.

¹⁰⁵ *Id.*

¹⁰⁶ WAC 480-07-510.

¹⁰⁷ *WUTC v. Avista Corporation*, Dockets UG-200900 and UG-200901, Order 08/05 ¶¶ 110, 113 (Sept. 27, 2021) (stating that Avista's selected 2019 test year ended nearly 11 months before the Company filed its direct testimony, which the Commission noted was "unusually long," and that Avista's test year ended nearly 23 months before the rate effective date).

normalize the test year. We nevertheless decline to adopt Public Counsel’s recommendation given the numerous errors discussed in Cascade’s rebuttal testimony and the possibility of additional errors not yet discovered due to the limited time the Settling Parties had to prepare and file rebuttal testimony.

111 We do, however, agree with Public Counsel that the use of 2020 as a test year is inappropriate without additional adjustments. Accordingly, this Order makes several adjustments to the settled revenue requirement that result in an overall revenue requirement increase of \$7.2 million, which is closer to the alternative revenue requirement calculations that Public Counsel provides. These adjustments include capital structure, use of 2020 depreciation expense, and removing below-the-line expenses related to Directors’ Fees.¹⁰⁸

112 Finally, nearly nine months elapsed between year-end 2020 and the Company’s initial filing date. The following table provides a comparison of the test year lag between when the Company filed its GRC and the end of the test year selected for Cascade’s last four GRCs.

Table 6 – Lag between Test Year and Filing Date

Docket	Settled	File Date	Test Year (Calendar)	Months between File Date and Test Year End
170929	Yes	08/31/2017	2016	8
190210	Yes	03/29/2019	2018	3
200568	No	06/19/2020	2019	6
210755	Yes	09/30/2021	2020	9

113 We encourage Cascade to use a more recent and representative test year in future filings. Future test years should be no older than six months from the date initial testimony is filed. The Commission also expects that abnormal test year activities will be adjusted and normalized regardless of the selected test year.

¹⁰⁸ See Section III.2 Capital Structure, Section III.3(f) Depreciation Expense, and Section III.3(g) Directors’ Fees.

114 Additionally, the test year need not align with a calendar year. We emphasize that a recent and representative test year is even more critical to multiyear rate plans (MYRP) because the budget and projections for years two through four will be based on the selected test year. MYRP results can be distorted if companies select test years that require numerous adjustments to reflect the year one rate-effective period. Finally, stale test years require more work for all non-company parties, as well as the Commission, to evaluate the reasonableness of the request.

b. Average of Monthly Averages vs. End of Period Adjustment

115 We turn now to whether the Company's test year rate base amount should be restated using end of period (EOP) or average of monthly averages (AMA) balances. In previous orders, the Commission has discussed EOP as a regulatory tool and provided four criteria for determining whether EOP treatment is appropriate. The Commission continues to view EOP valuation as a viable regulatory tool, and we discuss the four criteria in more detail below.

116 *Settling Parties.* In its direct case, Cascade requests, and offers support for, the use of EOP treatment.¹⁰⁹ The Settlement, by incorporation, also uses an EOP adjustment. Cascade argues that it is experiencing all four conditions that demonstrate EOP treatment is appropriate and necessary in this case.¹¹⁰

117 First, Cascade argues that it has been experiencing abnormal plant growth because the Company has been investing heavily in crucial infrastructure to ensure that customers are receiving safe and reliable services.¹¹¹

118 Second, Cascade argues that the economy is experiencing rapid inflation, causing costs to rise, and provides evidence that inflation has grown from 1.32 percent in August 2020 to 5.2 percent in August 2021.¹¹²

119 Third, Cascade argues that it is experiencing regulatory lag due to the timing of its rate cases and the nature by which its plant becomes used and useful at the end of a calendar year. Cascade argues that using AMA only allows for the recovery of 1/12 of the plant

¹⁰⁹ Chiles, Exh. MAC-4T, 8:18-9:14.

¹¹⁰ *Id.*

¹¹¹ *Id.*

¹¹² Chiles, Exh. MAC-1T at 9:19-10:11.

entering service even though the plant will be serving customers during the whole rate year.¹¹³

120 Finally, Cascade argues that it has been experiencing chronic underearning since 2015. The following table provides Cascade’s achieved rate of return compared to its authorized rate of return based on the Company’s annual Commission Basis Reports with adjusted Net Operating Income and AMA rate base.¹¹⁴

Table 7 – Cascade’s Results of Operations (in percentages)¹¹⁵

Year	2015	2016	2017	2018	2019	2020
Authorized (A)	8.85	7.35	7.35	7.31	7.31	7.24
ROR (B)	5.73	6.83	6.39	6.58	5.89	6.17
(B - A)	(3.12)	(0.52)	(0.96)	(0.73)	(1.42)	(1.07)

121 Cascade points to its last GRC in Docket UG-200568, wherein the Commission allowed EOP treatment because it was necessary and appropriate to address the fact that Cascade’s ongoing investments resulted in continuous underearning. The Commission also determined that EOP treatment would better match Cascade’s rates during the rate effective period.¹¹⁶

122 *Public Counsel.* Public Counsel argues that the Settlement provides for an excessive rate increase,¹¹⁷ due in large part to Cascade’s request for EOP treatment.¹¹⁸ Public Counsel characterizes the EOP adjustment as unnecessary while arguing that the 2020 test year is not a representative year on which to base rates.¹¹⁹ Public Counsel’s preferred approach for valuing rate base is AMA.¹²⁰

¹¹³ Chiles, Exh. MAC-1T at 7:3-9 and 8:16-9:18.

¹¹⁴ *Id.* at 7:10-8:4.

¹¹⁵ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05 at ¶ 168 Table 3 (May 18, 2021). 2015-2020 data also provided in Exh. MAC-1Tr at 8:1-2.

¹¹⁶ Chiles, Exh. MAC-1T at 6:16-7:2

¹¹⁷ Garrett, Exh. MEG-1T at 5:4-20.

¹¹⁸ *Id.* at 7:14-8:2 and 8:19-9:2.

¹¹⁹ *Id.* at 9:11-20.

¹²⁰ *Id.* at 10:1-3.

123 Public Counsel argues that the Settlement is excessive because the AMA 2020 unadjusted test year results produce a rate of return of 5.87 percent. Based on that result, Cascade's revenue deficiency would be \$5.9 million, not \$13.7 million (Cascade's initial request) or \$10.7 million (Settlement request).¹²¹ Public Counsel only supports EOP treatment if the following conditions are met: adjusting 2020 pro forma results to reflect 2021 unadjusted results of operations, adding a layer of Settlement adjustments for 2021,¹²² EOP revenue to reflect customer growth,¹²³ EOP rate base,¹²⁴ EOP depreciation,¹²⁵ and updating synchronized interest.¹²⁶

124 On rebuttal, Staff supports the Settlement, arguing that Public Counsel's alternative EOP treatment is not applied to all 2021 rate base items (*e.g.*, working capital).¹²⁷ Staff argues that Public Counsel's approach therefore results in an inconsistent test year rate base.¹²⁸

Commission Determination

125 We conclude that valuing Cascade's rate base on an EOP basis is appropriate in this case because the Company sufficiently demonstrated that it continues to make ongoing capital investments and has failed to earn its authorized rate of return for the last several years.¹²⁹ Although we agree that Cascade's needed plant growth is impacting its opportunity to earn its authorized rate of return, we are not persuaded by Cascade's arguments related to inflation and the regulatory lag due to the timing of when its investments are placed into service.

¹²¹ Garrett, Exh. MEG-1T at 7:1-13 and 8:16-9:2.

¹²² *Id.* at 10:1-3.

¹²³ *Id.* at 14:11-18.

¹²⁴ *Id.* at 15:1-8.

¹²⁵ *Id.* at 15:9-14.

¹²⁶ *Id.* at 15:15-19.

¹²⁷ Huang, Exh. JH-1T at 3:18-22.

¹²⁸ *Id.* at 4:1-4.

¹²⁹ Contrary to Commission Staff's testimony, working capital is valued on an AMA basis even when the rest of rate base is valued on an EOP basis because the balance sheet method used for determining investor supplied working capital requires a normalized comparison of current resources and current obligations to fund day-to-day operations in order to identify investor supplied capital to fund daily operations.

126 First, the Company has not demonstrated how its cost of service or its ability to earn its rate of return is impacted by rising inflation. Absent this analysis Cascade has only demonstrated that inflation exists, not how inflation supports its need for EOP treatment.

127 Second, Cascade argues that the “nature” of its plant construction results in the Company recovering only 1/12 of its investment. This is also unpersuasive because the Company decides when it files rate cases and which test year it uses. Cascade chose in this case to use the 2020 calendar year on the basis that 2020 is the most appropriate and representative year. At the same time, the Company claims that the 2020 calendar year provides only 1/12 recovery for constructed assets. Going forward, Cascade should consider using a split test year to address this specific recovery issue.

128 Although Cascade does not persuasively demonstrate that it has met each criteria for valuing rate base on an EOP basis, we authorize EOP valuation for the reasons explained below.

129 Pursuant to RCW 80.04.250(2), the Legislature provides the Commission with broad authority to determine the fair value of utility property for rate making purposes. We have accordingly valued rate base on an EOP basis when warranted by certain economic conditions and the particular facts of a given case.

130 Our 1981 decision in *WUTC v. Washington Natural Gas*, describes the various conditions under which EOP rate base may be justified. While that case identified AMA rate base as “the most favored” approach, the Commission recognized EOP rate base treatment as appropriate under one or more of the following circumstances:

- (a) Abnormal growth in plant;
- (b) Inflation and/or attrition;
- (c) Significant regulatory lag; or
- (d) Failure of utility to earn its authorized rate of return over an historical period.¹³⁰

131 Our use of EOP treatment as a regulatory tool, however, has evolved in recent years in response to changing markets and conditions. As we recently held in the 2019 Puget

¹³⁰ *WUTC v. Pacific Power & Light Company*, Docket UE-140762, Order 08 ¶ 145 (March 25, 2015) (citing *WUTC v. Wash. Nat. Gas Co.*, 44 P.U.R. 4th 435, 438 (Sept. 24, 1981)).

Sound Energy rate case, “[t]he Commission continues to view EOP rate base as one of many tools available to address regulatory lag when a sufficient showing has been made that, absent the use of EOP rate base, a utility will experience losses.”¹³¹ In that case, we approved EOP rate base in response to evidence of the company’s earnings erosion over time and the life of certain short-lived assets, which were at risk of under-recovery.¹³²

132 In this case, we agree that Cascade has demonstrated the need for EOP treatment due to its ongoing capital investment program and its demonstrated historical underearning. Public Counsel’s singular focus on the impact of the EOP adjustment on total revenue requirement is misplaced. We find unpersuasive Public Counsel’s arguments, which fail to refute the ample evidence Cascade provided to justify the use of EOP treatment.

133 Both Company testimony and Cascade’s updated Commission Basis Reports (CBRs) show a pattern of underearning from 2015 onwards, as shown in Table 7, above. Similarly, Cascade’s 2021 CBR shows that the Company earned a 6.14 percent ROR in 2021 when its authorized ROR was 6.95 percent, a difference of 0.81 percent.¹³³

134 We find it appropriate to allow an EOP adjustment to rate base in light of the particular facts of this case. Without EOP rate base treatment, Cascade has shown it likely will continue to under-recover in the rate-effective period due to the economic volatility caused by the COVID-19 pandemic, which remains ongoing. Cascade’s improving ability to earn its authorized ROR even with the Company’s ongoing capital investments is evidence that EOP valuation is working.

c. Unbilled Revenue

135 Unbilled revenue is an amount of revenue the utility has earned, that has accrued over a month’s time, but which the utility has not yet charged to customers. AWEC is the only Non-settling Party that contests the treatment of Cascade’s unbilled revenues, and it recommends in its testimony that the Commission remove approximately \$2.9 million of unbilled revenue from Cascade’s revenue requirement.¹³⁴ After Cascade updated its

¹³¹ Dockets UE-190529 et. al, Final Order 08/05/03 at ¶ 228.

¹³² *Id.*

¹³³ 2021 data provided in Cascade’s 2021 Commission Basis Report.

¹³⁴ Garret, Exh. MEG-1T at 12:12-21.

amounts in errata testimony,¹³⁵ AWEC in its brief reduced its recommended revenue requirement reduction to approximately \$1.4 million.¹³⁶

136 *Settling Parties.* In rebuttal testimony, Cascade argues that AWEC miscalculated the amount of unbilled revenue included in the test year and argues that its own treatment of unbilled revenue aligns with the direction it was given in its last GRC in Docket UG-200568.¹³⁷ Specifically, Cascade notes that the Commission directed it to remove “all supplemental tariff schedule costs and revenues from the revenue requirement in future filings.”¹³⁸

137 Cascade asserts that, contrary to AWEC’s argument, the Company already excluded approximately \$1.5 million associated with unbilled revenue from supplemental tariff schedules from its original revenue requirement.¹³⁹ Cascade also argues that AWEC incorrectly added \$0.8 million in unbilled revenue amounts associated with the decoupling mechanism to the amount of unbilled revenue, and that instead AWEC should have reversed that amount as Cascade did in its original filing.¹⁴⁰

138 Regarding the \$1.4 million, Cascade argues that the amount is “mainly associated with large volume customers, who typically are billed at the beginning of the following month.”¹⁴¹ In arguing that it was correct to retain this amount in the revenue requirement, Cascade asserts, “[a]t 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.”¹⁴²

139 *AWEC.* In testimony opposing the Settlement, AWEC recommends reducing the amount of unbilled revenues by \$2.9 million (later corrected in brief to \$1.4 million), which it

¹³⁵ Chiles, Exh. MAC-4Tr at 7:4 and 8:1.

¹³⁶ *Id.* at 7:15-8:14.

¹³⁷ AWEC Brief at ¶ 23.

¹³⁸ Docket UG-200568, Order 5 at ¶ 321.

¹³⁹ Chiles, Exh. MAC-4Tr at 7:9-10.

¹⁴⁰ *Id.* at 7:3-8.

¹⁴¹ *Id.* at 7:15-17.

¹⁴² *Id.* at 8:5-9.

argues is already accounted for in Cascade's working capital.¹⁴³ AWEC asserts the Company does not require additional revenue requirement consideration for unbilled revenues. AWEC also argues that it is inappropriate to use unbilled revenue in the normalized revenue requirement because unbilled revenues "are sensitive to the specific rate changes and changes in actual billing determinants that occurred over the course of the historical accounting period. The billing determinants that Cascade uses to develop revenue requirement, however, are normalized."¹⁴⁴ AWEC therefore contends that including unbilled revenue in the revenue requirement is inappropriate because the billing determinants used to calculate unbilled revenue are not normalized.

140 AWEC argues that the removal of the unbilled revenues associated with decoupling and the supplemental schedules is appropriate. AWEC disagrees, however, with the treatment of the remaining \$1.4 million balance associated with the revenues in question.¹⁴⁵

Commission Determination

141 We reject AWEC's proposal to remove \$1.4 million from the Settling Parties' revenue requirement because it is a reasonable term of a negotiated Settlement based on Cascade's established methodology, and we are unpersuaded that AWEC's novel methodology is appropriate. We recognize, however, that every GRC presents an opportunity for parties to recommend changes to various methodologies.

142 In the Commission's final order in Cascade's last GRC, the Commission stated, "[w]e share AWEC's concerns related to Cascade's lack of transparency when adjusting its model and direct the Company to use a restating adjustment to remove all supplemental tariff schedule costs and revenues from the revenue requirement in future filings."¹⁴⁶ Cascade affirms it has removed all unbilled revenue related to supplemental tariffs in compliance with the Commission's final order in that case, and AWEC agrees.¹⁴⁷

143 In light of the evidence presented by the parties in this case, we are not persuaded to take a different approach to adjusting unbilled revenues, as AWEC proposes. We agree that the adjustment as proposed by the Settling Parties is appropriate. Accordingly, we reject

¹⁴³ Mullins, Exh. BGM-1T at 16:4-5 ("The Settling Parties' workpapers already includes [sic] working capital of \$15,909,204 million associated with unbilled revenues.").

¹⁴⁴ *Id.* at 15:7-10.

¹⁴⁵ AWEC Post-Hearing Brief at ¶ 25.

¹⁴⁶ Docket UG-200568, Order 5 at ¶ 321.

¹⁴⁷ Chiles, Exh. MAC-4Tr at 7:8-13.

AWEC's proposed unbilled revenue adjustment and find it reasonable to accept the Settlement's treatment of unbilled revenues based on Cascade's established methodology.

d. COVID Contra Revenue

144 In response to AWEC's Data Request No. 04, Cascade identified COVID-related savings amounts associated with lodging, meals, and entertainment that amount to approximately \$0.6 million deferred from Account 921, Office Supplies and Expenses. AWEC asserts that these savings are not appropriately captured in the revenue requirement and that they should be incorporated on a going forward basis. AWEC recommends a \$0.6 million reduction to operating expenses, reversing the contra revenues that Cascade booked to Account 921.¹⁴⁸

145 *Settling Parties.* The Settling Parties oppose AWEC's proposal, asserting that AWEC considers savings but not costs, and that AWEC also fails to consider a full year of savings. According to the Settling Parties, the net impact of deferred savings and costs has other moving pieces, such as estimated late payment fees that have not been charged since 2020.¹⁴⁹ Cascade opposes reversing the savings deferral because the Company would also have to reverse deferred costs and late payment fees. Cascade contends that the net result of removing all COVID deferred savings and costs would increase the revenue requirement by approximately \$0.1 million.

146 *AWEC.* AWEC argues that Cascade has booked costs and savings associated with the COVID deferral without recognizing the permanence in time of the savings.¹⁵⁰ Therefore, AWEC contends that Cascade increased its costs in the test period for the savings returned to customers.

Commission Determination

147 We reject AWEC's proposal. AWEC provides a one-sided perspective by suggesting that only savings should be recognized on a going forward basis. Given that the deferral mechanism was authorized due to the exceptional circumstances of the COVID-19 pandemic and that the deferral includes both expenses and savings, it would be inconsistent to incorporate just one component on a going forward basis. According to Cascade's April 2022 COVID deferral report, operations are returning to pre-pandemic

¹⁴⁸ Mullins, Exh. BGM-1T at 25:11-14.

¹⁴⁹ Chiles, Exh. MAC-4Tr at 13:3-10

¹⁵⁰ Mullins, Exh. BGM-1T at 24:14-18.

levels.¹⁵¹ The deferral mechanism should be maintained, however, because it serves to preserve for future consideration the deferred costs and savings as intended. As Cascade continues to provide annual reporting, we reserve the ability to revisit the deferral in a future proceeding.

e. Bad Debt Expense

148 The Settling Parties' revenue requirement includes approximately \$1.0 million of bad debt expense based on 2020 amounts through the proposed conversion factor. AWEC recommends a revenue requirement adjustment to normalize the amount included in the Settlement's proposed conversion factor.

149 AWEC. AWEC argues that the amount of bad debt expense included in the 2020 test year is abnormally high due to the impacts of the COVID-19 pandemic.¹⁵² AWEC claims that this inflated level of bad debt expense results in a revenue requirement that is not representative of a "normal" year. To normalize these amounts, Mullins recommends an adjustment that uses a three-year average for the period 2016-2018. Notably, Mullins deliberately excludes 2019 from the three-year average calculation, arguing that it is also abnormally high due to COVID-19.

150 *Settling Parties.* On rebuttal, Cascade argues that the "[c]urrent 2020 test year's uncollectible amount is representative of past amounts and does not reflect an elevated level due to the coronavirus pandemic."¹⁵³ Chiles suggests that AWEC strategically "hand-selected" an outdated period that results in the largest decrease to revenue requirement of any three years that data was provided.¹⁵⁴ Finally, Chiles argues that AWEC's suggestion that 2019 amounts were impacted by COVID-19 is flawed because the CDC did not officially declare a pandemic until March 11, 2020.¹⁵⁵

Commission Determination

151 We reject AWEC's proposal because it seeks to selectively include, not normalize, which costs should be considered in bad debt expense. Table 8 below shows the bad debt

¹⁵¹ MAC-4Tr at 13:13-18.

¹⁵² Mullins, BGM-1T at 22:1-2.

¹⁵³ Chiles, MAC-4Tr at 10:1-2.

¹⁵⁴ *Id.* at 11:13-15.

¹⁵⁵ Chiles, MAC-4Tr at 10:5-8.

expense amounts for the Company since 2016, the percentage growth rates by year, and the 3-year rolling average calculations.

Table 8 – Bad Debt Expense

	2016	2017	2018	2019	2020
Bad Debt Expense	765,092	980,606	678,646	964,264	972,241
Percentage Growth	-	28.17%	-30.79%	42.09%	0.83%
3-Year Rolling Average	-	-	808,115 ¹⁵⁶	874,505	871,717

152 As Table 8 shows, the growth rates of bad debt expense have varied widely since 2017 and show no apparent trend. While AWEC claims that bad debt expense amounts in 2019 and 2020 were unusually high due to COVID-19, amounts in 2017 were greater than both of those years.

153 Furthermore, as Company witnesses testify, it is inaccurate to suggest that 2019 amounts were impacted by COVID-19. While the virus was first detected in 2019, the financial impacts of the pandemic were not felt by Washington ratepayers until at least early-to-mid 2020. Proclamation 20-05, Governor Inslee’s first “Stay Home – Stay Healthy” order, was issued on February 29, 2020, nearly two months after the end of 2019. Because 2019 can be considered a “normal” year, amounts included in the test year do not appear unreasonable.

154 Finally, AWEC’s 3-year average proposal would include expense levels from 2016. As of the rate effective date in this case, data from 2016 will be nearly seven years old and may not accurately reflect expected amounts during the rate effective period. For these reasons, we reject AWEC’s proposal.

¹⁵⁶ AWEC recommends normalizing the amounts by using the 3-year average for 2016-2018.

f. Depreciation Expense

155 The Settlement proposes a compromise that recognizes the difference between end of period (EOP) and 2021 actual depreciation, which results in an approximate \$3 million reduction from Cascade’s initially filed case.¹⁵⁷

156 *Settling Parties.* The Settlement reflects a revenue requirement reduction from Cascade’s initial filing of \$13.7 million to \$10.7 million that is mostly driven by a compromise in the treatment of depreciation expenses. The Settling Parties argue that they analyzed several methodologies to calculate depreciation expenses, which included depreciation expense based on EOP treatment, actual depreciation expense in 2020, and actual depreciation expense in 2021. As a “reciprocal concession” on the depreciation calculation methodology and based on a determination that “no methodology is clearly better than the other,” the Settling Parties agreed to a compromise that recognizes the difference between EOP and 2021 actual depreciation expense and reduces the revenue requirement by \$3 million.¹⁵⁸

157 In its rebuttal testimony, Cascade argues that using actual accrued depreciation for calendar year 2020 as proposed by AWEC in its response testimony is not valid because it creates a mismatch between the depreciation expense and the associated plant.¹⁵⁹ Plant values, as proposed in the Settlement, are calculated at EOP, and Cascade contends that the further reduction of the depreciation expense would impact the benefits that EOP rate base provides in reducing underearning. Staff did not provide any response to AWEC’s argument on depreciation. The Settling Parties did not address Public Counsel’s recommendations on calculating depreciation.

158 *AWEC.* AWEC proposes using actual accrued depreciation expense for calendar year 2020, generating a further revenue requirement reduction of \$2.9 million from the Settlement amount.¹⁶⁰ Witness Mullins argues that the Settling Parties acknowledge that there was some error in the calculation of depreciation, but they fail to identify the source of the problem.¹⁶¹ AWEC also argues that the Settlement does not identify the

¹⁵⁷ Joint Testimony, Exh. JT-1T at 5:4-8.

¹⁵⁸ *Id.* at 4:18-21, 5:1-8. Two other minor adjustments were made to depreciation that yielded a \$5,768 reduction in depreciation expenses. *See* BGM -1T at 19:1- 2.

¹⁵⁹ Chiles, Exh. MAC-4Tr at 8:18.

¹⁶⁰ Mullins, Exh. BGM-1T at 20:21-22.

¹⁶¹ *Id.* at 19:13-15.

depreciation method the Settling Parties used,¹⁶² and that Cascade's depreciation calculation was erroneous as compared to actual 2021 data. AWEC advises against using 2021 EOP depreciation, which it argues is inconsistent with the 2020 rate base proposed in the Settlement. AWEC argues that the Settlement's treatment is inconsistent because accumulated plant reserves will not reflect the proposed depreciation expense until the end of 2021, and the Settlement's rate base does not include 2021 plant additions.¹⁶³

159 *Public Counsel.* Public Counsel opposes the Settlement's depreciation calculation and instead proposes to apply depreciation rates approved in Docket UG-200278 to the December 2021 plant balances. This results in an increase to the revenue requirement of \$1.1 million.¹⁶⁴

Commission Determination

160 We agree with AWEC's proposal to use the actual 2020 depreciation expense because this depreciation expense reflects plant placed into service (*i.e.*, in the 2020 test year rate base).¹⁶⁵ Using 2021 depreciation expense is neither representative of 2020 depreciation nor consistent with 2020 rate base. Further, the Settlement neither supports the need for, or the reasonableness of, inconsistent treatment between depreciation expense and rate base. Public Counsel offers a middle ground but fails to address AWEC's concern of inconsistent measurements of depreciation expense, plant reserves, and new 2020 plant that was placed into service.

161 Our preferred approach is to calculate depreciation by applying the authorized depreciation rates to the modified historical test year rate base. This approach incorporates the consistent timing and measurement of depreciation expenses, taxes, rate base, and authorized depreciation rates into the calculation. AWEC's proposal is the only recommendation that attempts to use the matching principle by addressing the temporal relationship between depreciation expense and rate base. Therefore, we require the Company to use actual 2020 depreciation expense as reflected in Exhibit No. JT-2.

¹⁶² *Id.* at 19: 5-13

¹⁶³ *Id.* at 19:19-20; 20: 1-2.

¹⁶⁴ Garrett, Exh. MEG-1T at 15:10-14.

¹⁶⁵ Joint Testimony, Exh. JT-2.

g. Directors' Fees

162 This adjustment removes 50 percent of all levels of Director and Officer Liability
insurance premiums, and results in a \$0.2 million decrease in the Settlement's revenue
requirement. AWEC recommends removing additional organizational dues and expenses
that are not appropriate for inclusion in Washington rates.

163 AWEC. AWEC recommends the Commission order an additional decrease to the
Company's revenue requirement based on misallocated costs from its parent company,
MDU Resources Group, Inc. AWEC argues that test year amounts include "a number of
other miscellaneous charges" that are "not appropriate to consider in Washington"
rates.¹⁶⁶ These charges include "Company Organizational Dues to the North Dakota
Newspaper Association, the Bismarck-Mandan Chamber of Commerce, the Wyoming
Taxpayers Association, and the ND Lobbyists Association."¹⁶⁷ Mullins recommends that
these expenses be removed from the adjustment, which results in an additional \$6,258
reduction to the Settlement's revenue requirement.

164 *Settling Parties.* Neither of the Settling Parties specifically address AWEC's concerns on
rebuttal. While both the Company and Staff broadly contest AWEC's overall position in
their rebuttal testimonies, both parties fail to respond to AWEC's claims regarding the
misallocation or appropriateness of recovering expenses not appropriate for ratemaking
treatment (*i.e.*, below the line expenses).

Commission Determination

165 We accept AWEC's proposed changes to the adjustment because these misallocated costs
are below the line expenses that are not appropriate for ratemaking treatment. Although
AWEC's proposal minimally decreases revenue requirement, the Settling Parties
nevertheless failed or chose not to respond to AWEC's concerns. Accordingly, we
decrease the revenue requirement by \$6,258.

h. Protected-Plus Excess Deferred Income Tax

166 The Tax Cuts and Jobs Act, which became effective on December 31, 2017, reduced the
Federal corporate tax rate from 35 percent to 21 percent. As a result of the federal
corporate tax reduction, Cascade had a net deferred tax liability, or excess deferred

¹⁶⁶ Mullins, Exh. BGM-1T at 26:6-8.

¹⁶⁷ *Id.* at 26:8-11.

income tax (EDIT). Specifically, protected-plus excess deferred income tax (or PP EDIT) represents taxes collected from customers that will not be paid to the Internal Revenue Service (IRS), generally due to timing differences between how an asset is depreciated for ratemaking (*i.e.*, straight-line depreciation) and how an asset is depreciated for tax purposes. The EDIT resulted in a pass-back or refund that the Commission ordered be incorporated into customer rates through a separate tariff schedule.

167 In Cascade's 2017 GRC, the Commission approved a settlement that required Cascade to amortize PP EDIT benefits using the average rate assumption method required by IRS Code (IRC) section 167, and to pass back the PP EDIT benefits to customers through a separate tariff schedule, Schedule 581, including an annual true up every October 1.¹⁶⁸ The settlement further provided that the parties reserved the right to take any position desired in future general rate proceedings if the decision to use Schedule 581 for PP EDIT reversals is revisited.

168 In Puget Sound Energy's (PSE's) 2020 GRC, the Commission ordered similar treatment of the company's PP EDIT, requiring that over-collected amounts be passed back to customers through a separate schedule, Schedule 141X.¹⁶⁹ Following the conclusion of that case, PSE filed an accounting petition in Dockets UE-200843 and UG-200844 to track the revenues related to the Order's treatment of PP EDIT on October 1, 2020, and then requested a Private Letter Ruling (PLR) from the IRS on January 7, 2021.

169 In response to PSE's request, the IRS issued PLR 101961-21 on July 26, 2021. The PLR determined that because PP EDIT amounts were originally deferred using the normalized method of accounting, those amounts remain subject to IRS normalization rules, including the Consistency Rule, which provides that any amounts deferred using the normalized method of accounting may not be adjusted for ratemaking purposes without making similar adjustments to rate base (including accumulated deferred income tax, or ADIT), book depreciation expense, and tax expense. In other words, the PLR requires that PP EDIT be passed back to customers through base rates to ensure consistent treatment of PP EDIT amounts with ADIT, book depreciation expense, and tax expense.

¹⁶⁸ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-170929, Final Order 06 ¶ 51 (July 20, 2018).

¹⁶⁹ *WUTC v. Puget Sound Energy*, Docket UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226, UE-190991, & UG-190992 (*Consolidated*) Final Order 08/05/03 (July 8, 2020).

- 170 On March 24, 2022, Cascade filed with the Commission revisions to its currently effective Tariff WN U-3 in Docket UG-220198 that would, among other things: (1) set the amortization rate for an historical level of PP EDIT prospectively; (2) establish a deferred balance of approximately \$3.3 million, which represents the amount Cascade claims has been over-refunded to customers; (3) reverse the current deferred protected average rate assumption method (ARAM) component and record it in the current federal income tax account, and (4) file an adjustment to the Company's rate Schedule 581 to set the amortization to match the test year in this case.
- 171 In its testimony, AWEC asserts that Cascade will commit a normalization violation at the conclusion of this case if it does not address the treatment of PP EDIT according to the guidance provided to PSE in PLR 101961-21. AWEC proposes to eliminate schedule 581 credit revenues, adding back \$1.6 million of PP EDIT and reversing Cascade's adjustment to remove the PP EDIT. Making these changes reduces the Settlement's revenue requirement by \$2.1 million.¹⁷⁰ The parties to this proceeding disagree about whether the Commission should address PP EDIT and any possible normalization violations in this Docket or separately in Docket UG-220198.
- 172 *Settling Parties.* The Company opposes AWEC's proposal. On April 28, 2022, Cascade filed a Motion to Strike Opposition Testimony and Exhibits (Motion) regarding PP EDIT. In its filing in Docket UG-220198, Cascade asserts that it filed its tariff revision as soon as it determined the appropriate way to address the PP EDIT issue.¹⁷¹ The Company argues that it did not file the issue with this case because the GRC was filed six months before it determined how to interpret the PLR.¹⁷² Cascade argues that there is insufficient time to address this issue in this case and that it does not believe a normalization violation will occur in the interim so long as the Company has a plan in place to correct potential violations.¹⁷³ Lastly, it argues that the numbers provided by AWEC are incorrect because there are certain inaccuracies and mistakes in Mullins's testimony and exhibit relating to PP EDIT.¹⁷⁴ The Company provides no additional specificity about the alleged errors.

¹⁷⁰ Mullins, Exh. BGM-1T at 29:1-4.

¹⁷¹ Docket UG-220198, Response to Bench Request No. 1.

¹⁷² *Id.*

¹⁷³ *See* Cascade's response to the Commission's notice of intent to consolidate UG-210755 and UG-220198 at paragraph 6. *See also* Chiles, Exh. MAC-4Tr at 15:20-21.

¹⁷⁴ Chiles, Exh. MAC-4Tr at 16:12-17.

- 173 In Cascade's Motion, the Company argues that PP EDIT-related testimony and exhibits should be stricken because they are outside the scope of issues presented in this general rate case and the Settlement.¹⁷⁵ Cascade asserts that the procedural schedule did not accommodate these issues, and that allowing this testimony is inappropriate and would prejudice the Settling Parties.¹⁷⁶
- 174 *AWEC*. *AWEC* argues that, based on the determinations in PLR 101961-21, returning PP EDIT through Schedule 581 (a supplemental schedule outside of base rates) is inconsistent with the normalization requirements of Internal Revenue Code §168(i)(9). Because of this, *AWEC* argues that the Settlement violates the IRS normalization requirements.¹⁷⁷
- 175 *AWEC* opposes the Settling Parties' intent to address this issue outside of a GRC in separate Docket UG-220198. *AWEC* initially requested that the Company extend the suspension date of the current GRC, and that the Commission consolidate the GRC with Docket UG-220198.¹⁷⁸ During the Commission's April 14, 2022, status conference, however, the Company would not agree to extend the suspension date of the tariff revisions filed in this Docket.¹⁷⁹ *AWEC* recommends eliminating Schedule 581 and including PP EDIT 2020 test period reversals in revenue requirement. *AWEC* contends that implementing its proposed changes will hold customers harmless.¹⁸⁰
- 176 In its response to Cascade's Motion, *AWEC* argues that the Company's failure to address the treatment of PP EDIT in the context of the Settlement will result in a normalization violation, harming Cascade and, ultimately, ratepayers.¹⁸¹ *AWEC* submits that the compressed schedule is entirely of Cascade's making, and that the Company should not be allowed to dictate the issues raised by other parties in opposing the Settlement.

¹⁷⁵ Motion, ¶ 1.

¹⁷⁶ *Id.* at ¶¶ 5, 9.

¹⁷⁷ Mullins, Exh. BGM-1T at 27: 7-13.

¹⁷⁸ *AWEC's* Response to Notice of Intent to Consolidate, ¶ 2.

¹⁷⁹ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-220198, Transcript - Vol. I at 15:1 (June 6, 2022).

¹⁸⁰ Mullins, Exh. BGM-1T at 29:1-5.

¹⁸¹ *AWEC's* response to Cascade's Motion to Strike, ¶ 1.

177 AWEC argues that PLR 101961-21 prohibits a taxpayer from adjusting its PP EDIT annually without making similar adjustments to rate base, deferred taxes, book depreciation expense, and tax expense. Under IRS normalization rules, a taxpayer is also not permitted to true up ARAM PP EDIT based on volume difference between the test year and the rate effective period. AWEC contends that Cascade's Schedule 581 is inconsistent with both requirements.¹⁸² AWEC recommends the proper treatment of PP EDIT on a going forward basis in this case, whereas Docket UG-220198 primarily relates to historical amounts. While the resolution of the historical amounts may be able to wait, AWEC believes it is necessary and appropriate for the Commission to determine the proper going forward treatment for PP EDIT reversals in this case rather than waiting until the resolution of Docket UG-220198.¹⁸³

Commission Determination

178 Ultimately, Cascade controls when it files a general rate case with the Commission. We observe that Cascade had the opportunity to review PLR 101961-21 and interpret it well before the Company filed its GRC but chose not to. Although the timing of Cascade's filing in Docket UG-220198 did not afford sufficient time to address both historical and future PP EDIT in this case, we share AWEC's concern that the Company is and will continue to be in violation of the IRS normalization requirements if the issue is not resolved in this proceeding.

179 The Commission must weigh various interests to bring the Company into alignment with IRS normalization requirements in a timely manner while providing sufficient process to allow all interested parties to address going forward treatment, address concerns around potential retroactive treatment of historical 2019 and 2020 PP EDIT amounts outside the context of a GRC and discuss and consider the potential single issue ratemaking treatment requested in Docket UG-220198.

180 Cascade argues in its brief that the Company will not be at risk for a normalization violation so long as it has a plan in place to address the violation. Regardless of whether the Company's plan is sufficient to prevent a normalization violation, we are not persuaded that addressing this issue outside the context of a general rate proceeding is appropriate. To address PP EDIT reversals going forward, we find that Cascade's base rates must be changed within a general rate proceeding to reflect the impacts of those

¹⁸² *Id.* at ¶ 6.

¹⁸³ *Id.* at ¶ 7.

normalized reversals not only in revenues, but also in rate base, ADIT, book depreciation expense, and tax expense. Accordingly, we conclude that the going-forward treatment of PP EDIT must be addressed in this case. The Settling Parties have not demonstrated that ratepayers will be held harmless if resolution of this issue is postponed. We thus further conclude that waiting until the Company's next GRC does not produce a fair, just, reasonable, or equitable outcome because ratepayers and the Company may be harmed by the delay.

181 To avoid this outcome, we require the Parties to address PP EDIT reversals in the context of this proceeding. Recognizing that procedural time constraints did not allow the Parties to properly address going forward treatment of PP EDIT in this Docket, we require the Parties to work collaboratively on the proper going-forward treatment using the guidance in this Order and direct Cascade to make a compliance filing reflecting the collaborative resolution of this issue within 60 days of the effective date of this Order.¹⁸⁴

i. Working Capital

182 The working capital allowance (also referred to as investor supplied working capital or working capital) provides a return to investors for funds used to support day-to-day operations that are not covered by debt. In Cascade's initial testimony, the Company proposes a working capital calculation using the actual 2020 balance sheet on an AMA basis. Cascade's proposed allowance is approximately \$13 million. Public Counsel proposes calculating working capital with actuals from 2021 on an AMA basis, bringing the amount to approximately \$20.5 million. Finally, AWEC proposes removing all cash and cash equivalent accounts from the working capital calculation because, according to AWEC, those amounts already earn a return.

183 *Settling Parties.* The Settling parties assert that the working capital calculation in Cascade's initial filing is based on AMA balance sheets using test year 2020 as filed by the Company, and no additional adjustments were made.¹⁸⁵

¹⁸⁴ The PP EDIT compliance filing must include proposed relevant tariff sheet(s), a detailed description of the changes made (including impact(s) on revenue requirement), an updated revenue requirement Excel spreadsheet where all cells manually changed are highlighted, and a document signed by all parties that participated in the collaborative stating that the compliance filing is a fair resolution of the issue of including PP EDIT in base rates going forward and no longer passing those amounts back through a separate schedule.

¹⁸⁵ Gresham, Exh. MCG-1T 3:15-21.

184 In rebuttal testimony, Cascade argues that “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.”¹⁸⁶ The Company attested that cash accounts do not earn interest and that they should be included in the working capital calculation.¹⁸⁷

185 *Public Counsel.* Public Counsel proposes calculating working capital using 2021 results valued on an AMA basis, which brings the amount from approximately \$13 million for 2020 to approximately \$20.5 million for 2021.¹⁸⁸ Public Counsel contends that Staff incorrectly argues that Public Counsel’s EOP balance calculation for 2021 results should have included an EOP balance for working capital. In its alternative recommendation, Public Counsel proposes 2021 EOP treatment, and argues that working capital is not adjusted to EOP. Accordingly, Public Counsel asserts that both of its recommended rate base valuation proposals treat investor supplied working capital consistently with the Settlement.¹⁸⁹

186 Staff argues in rebuttal testimony that Public Counsel’s alternative 2021 EOP test year treatment is inappropriate because it values working capital on an AMA basis.¹⁹⁰ This is contrary to the Settlement, which allows for EOP treatment but still values working capital on an AMA basis.

187 *AWEC.* AWEC opposes the Settlement’s working capital calculation and proposes removing all cash accounts by reclassifying them to non-operating, asserting that Cascade earns interest on cash and cash equivalent accounts. The total cash and cash equivalents accounts amount to approximately \$1.3 million. AWEC also proposes a correction to the jurisdictional allocation factor, arguing that it is outdated, which results in an additional reduction of approximately \$24,000. AWEC’s total proposed adjustment results in an overall reduction in revenue requirement of \$0.1 million.¹⁹¹

¹⁸⁶ Chiles, Exh. MAC-4Tr at 12:4-6.

¹⁸⁷ *Id.* at 12:15-16.

¹⁸⁸ Garrett, Exh. MEG-1T at 11:12-13.

¹⁸⁹ *Id.* at 16:6.

¹⁹⁰ Huang, Exh. JH-1T at 3:8-4:4.

¹⁹¹ Mullins, Exh. BGM-1T at 22:21-23 and 23:1-10.

Commission Determination

188 We reject AWEC's proposal because AWEC failed to provide any evidence that the Company does, in fact, earn interest on cash accounts or identify how much interest is being earned. Cascade affirms in rebuttal that it does not earn interest on such accounts.¹⁹²

189 The goal of the investor supplied working capital calculation is to provide a return on the investor supplied funding of day-to-day business operations. Operations are funded primarily by short-term assets (which includes cash) and short-term debt. Cash accounts are the most liquid assets, are needed to fund operations, are used to service debt, and support solvency. These factors alone diminish the value of AWEC's argument because removing cash from working capital would not allow the calculation to recognize that cash not offset by short-term obligations is cash provided by investors. AWEC's position is not only unsupported, but also misaligned with the intent of the working capital allowance. We therefore reject AWEC's recommendation to remove cash accounts from working capital.

190 In general, the working capital calculation should be valued on an AMA basis, and not EOP. EOP valuation is a snapshot of the balance sheet accounts at the end of the period and would not accurately represent the average investor supplied funds to operations for the test year. Furthermore, we agree with Public Counsel's point that any time horizon considered for rate base should align with the time horizon for the working capital calculation (*i.e.*, if rate base is valued on a 2021 basis, working capital should also be valued on a 2021 basis).

191 Overall, the approach should be to maintain the cash and cash equivalent accounts as operating accounts and to align the time horizon for the working capital calculation with respect to rate base. We find that the Company has sufficiently supported its working capital allowance.

j. Cost Recovery Mechanism Revenue

192 This case raises two issues related to the Company's Cost Recovery Mechanism (CRM): (1) whether the CRM should be terminated and (2) whether Cascade should be directed to provide a refund to customers for what AWEC alleges was an improper adjustment to rates in the Company's compliance filing in its last GRC. The CRM was created through

¹⁹² Chiles, Exh. MAC-4Tr at 12:15-16.

the Commission's policy statement in Docket UG-120715 and enables recovery between rate cases of the costs associated with replacing pipeline that poses elevated risk. The CRM provides a return on the Company's pipeline investment via annual rate increases. The CRM was not addressed in the Settlement.

193 *AWEC*. In its opposition to the Settlement, *AWEC* requests the Commission terminate the CRM. *AWEC* interprets language in the policy statement in Docket UG-120715 as indicating that the CRM was only intended to last four years. *AWEC* argues "the CRM on a going forward basis is no longer necessary for Cascade to recover pipeline replacement plan costs, particularly given the expansion to the Washington used and useful policy, as well as Cascade's ability to file a multiyear rate plan."¹⁹³ *AWEC* asserts that "Cascade had the opportunity to consider forward looking estimates of pipeline replacement plan costs but elected not to do so."¹⁹⁴ According to *AWEC*, even though Cascade only filed an annual rate case in this Docket, the opportunity to file a multiyear rate plan makes the CRM unnecessary.¹⁹⁵

194 Regarding Cascade's last GRC in Docket UG-200568, *AWEC* alleges that although the Commission required Cascade to reduce its rates by \$0.4 million, Cascade actually increased its rates by \$0.6 million.¹⁹⁶ According to *AWEC*, Cascade's June 11, 2021, compliance filing in Docket UG-200568 inappropriately increased its revenue requirement by \$1.0 million for pipeline replacement costs. *AWEC* asserts that the Commission's Policy Statement "required such costs to be included in the utility's filing, not as a supplemental adder in the compliance stage. . . . Those additions were squarely within the pro forma period that was being considered in the case, and therefore there is no reason for them to be included after the fact in the compliance stage."¹⁹⁷ Citing WAC 480-07-880(7), *AWEC* requests the Commission direct Cascade to refund its customers \$1.1 million over the next year, which *AWEC* derives by prorating from July 1, 2021, through August 31, 2022, the \$1.1 million it alleges Cascade erroneously collected from its customers.

¹⁹³ Mullins, Exh. BGM-1T at 32:9-12.

¹⁹⁴ *Id.* at 33:6-7.

¹⁹⁵ *Id.*

¹⁹⁶ *Id.* at 35:1-2.

¹⁹⁷ *Id.* at 35:12-13.

195 *Settling Parties*. According to Cascade, the Commission never intended the CRM to terminate after four years. Cascade contends that “AWEC’s recommendations rely heavily on an inaccurate conclusion from the Commission’s policy statement in Docket UG-120715.”¹⁹⁸ On rebuttal, Cascade notes that the Commission has not made any finding that the CRM is no longer necessary and clarifies that “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.”¹⁹⁹ Cascade recommends that the Commission wait to evaluate whether it is appropriate to eliminate the CRM until Cascade files its first multiyear rate plan. Cascade asserts that, in the interim, “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.”²⁰⁰

196 In response to AWEC’s allegation that Cascade’s charges related to the CRM contradict the order in Cascade’s last GRC, Cascade clarifies that this is largely an issue of the timing difference between the operation of the CRM and the test year in this rate case. As Cascade explains in rebuttal testimony, in June 2020 the Company filed its last GRC, which covered all investments made throughout 2019 and the associated revenue that included CRM rates effective November 1, 2019 (covering investments through October 31, 2019).²⁰¹ Notably, for each November 1 CRM filing, investments for the month of October can only be estimated. One of the projects that Cascade estimated would be completed in October 2019 ultimately was not placed in service until November 2019. Cascade trued up this delay in project completion in its 2020 CRM filing. This resulted in a reduction to the CRM rate that became effective on November 1, 2020.

197 Because Docket UG-200568 covered all investments made in 2019, Cascade explains that the 2020 CRM contained investments that were already included in the rate case test year. According to Cascade, the 2020 CRM and associated true up (reduction to CRM) were in place until the new rates from Docket UG-200568 went into effect on July 1, 2021. Cascade explains on rebuttal that “[o]nce the rate case was completed, the general rates included the rate base and the proper revenues related to CRM investments through

¹⁹⁸ Chiles, Exh. MAC-4Tr at 17:7-8.

¹⁹⁹ *Id.* at 18:3-5.

²⁰⁰ *Id.* at 18:9-13.

²⁰¹ *Id.* at 20:9- 21:6.

the end of 2019. At that point the CRM rates were adjusted to remove anything related to activity through December 31, 2019.”²⁰² Thus, the compliance filing removed the true up that reduced the CRM, which resulted in a net increase to rates. Or, as the Company states, “(a)lthough 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.”²⁰³

Commission Determination

198 We deny AWEC’s request to terminate the CRM and decline to require Cascade to refund to customers amounts recovered as a result of the Company’s compliance filing in its last GRC.

199 First, AWEC’s claim that the CRM was only intended to last four years is incorrect. We continue to allow the use of the CRM to expedite fixing pipelines that pose safety risks. In addition, the decision to terminate the CRM is not currently ripe. Instead, the CRM should be evaluated when Cascade files its first multiyear rate plan. We agree with Cascade that “a multiyear 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 multiyear proposal.”²⁰⁴

200 Second, AWEC’s claims regarding Cascade’s compliance filing in its last GRC should have been raised at the time the compliance filing was made. Acting on this claim and ordering a refund at this juncture and absent an accounting petition would result in retroactive ratemaking.

201 It is clear, however, that Cascade inappropriately modified base rates for its 2019 CRM in its 2020 compliance filing. As Cascade explained in its compliance cover letter, “the tariff changes proposed herein are consistent with the tariff revisions proposed in the Direct Testimony of Pamela J. Archer included in the Company’s initial general rate case filing as Exhibit No. PJA-1T. The exception to these changes is schedule No. 597, which is revised in order to zero out rates in effect November 1, 2020, per WUTC Pipeline

²⁰² *Id.* at 22:5-8.

²⁰³ Chiles, Exh. MAC-4T at 22:16-18.

²⁰⁴ *Id.* at 18:16-19.

Replacement Policy Statement.”²⁰⁵ Given the language in the compliance cover letter, it is unclear what the revenue impact would be to “zero out rates” for Schedule No. 597, CRM. We have concerns about the Company or Staff making or allowing rate changes in the compliance filing without providing supporting testimony or exhibits. The impact of Cascade’s and Staff’s action circumvented the Commission’s ability to review and set rates.

202 WAC 480-07-880 provides that a Company must strictly limit the scope of its compliance filing to the requirements of the final order to which it relates. Furthermore, the rule clarifies that filing a new or revised tariff other than the tariff that initiated the order is a subsequent filing, not a compliance filing. To ensure the provision of due process to all parties, any rate base adjustments must be made before the Commission either through an adjudicated rate case proceeding or at one of the Commission’s regularly scheduled open meetings. To be clear, CRM adjustments and true-ups must either be made in a rate case and supported by testimony and exhibits, or, if directed, made as a subsequent filing for consideration at an open meeting. Accordingly, Cascade is directed to make a subsequent filing if it wishes to update and true-up its CRM.

4. Schedule 663 Overrun Entitlement Charge

203 The Overrun Entitlement Charge sends a signal to transportation customers to purchase and deliver the correct amount of gas during periods of constraint on the system.²⁰⁶ The charge does not increase Cascade’s earnings because any funds collected from transportation customers are paid out to core customers through the Purchased Gas Adjustment (PGA) mechanism. Cascade’s Overrun Entitlement Charge, Schedule 663, is currently being addressed in Docket UG-210745. AWEC recommends that the Commission terminate Cascade’s overrun entitlement charge.

204 *Settling Parties.* Cascade filed a motion to strike AWEC’s testimony on Overrun Entitlement Charges and asserts that any potential changes to Schedule 663 should be considered after the conclusion of Docket UG-210745. On rebuttal, Cascade states it is open to exploring potential changes to its Overrun Entitlement Charges but emphasizes

²⁰⁵ *WUTC v. Cascade Natural Gas*, Docket UE-200568, Compliance Cover Letter, page 1, ¶ 4 (June 11, 2021).

²⁰⁶ *Tree Top, Inc., v. Cascade Natural Gas Corporation*, Docket UG-210745, Formal Complaint at ¶ 1 (Sept. 24, 2021) (“During a declared overrun entitlement, customers must balance their pre-scheduled or ‘nominated’ natural gas usage with their actual natural gas usage within a certain threshold percentage on a daily basis.”).

that this rate case is not the right forum for this examination, stating, “all Cascade Transportation customers—including those not represented by AWEC—should have the opportunity to be involved in discussions around this proposed policy change.”²⁰⁷ In addition, because other gas utilities have similar tariff language on Overrun Entitlement Charges, Cascade recommends that any changes be considered in a separate docket so that there is broader participation and consistency across gas utilities.

205 AWEC. AWEC’s witness in this rate case, Mullins, is also Tree Top, Inc.’s witness in Docket UG-210745. In testimony opposing the Settlement, Mullins recommends the Commission modify the Overrun Entitlement Charge because applying the same language that Cascade is subject to in its contract with Northwest Pipeline to specific transportation customer accounts may result in a situation “where an entitlement charge is assessed to an individual account, even though Cascade was never required to pay any entitlement charges to Northwest Pipeline with respect to that transportation customer’s daily imbalance.”²⁰⁸ AWEC further asserts that “[t]he language in Schedule 663 calculates an overrun entitlement based on the highest market price on the NW Pipeline system [which] is not reflective of Cascade’s actual costs. Such a charge is only reasonable if Cascade is actually assessed a charge from the NW Pipeline specifically as a result of a particular customer’s overrun.”²⁰⁹

206 AWEC recommends that Schedule 663 be modified such that any Overrun Entitlement Charge is calculated as the greater of \$1.00 per therm, 150 percent of the Sumas market price, or a customer’s allocated share of the actual overrun entitlement charges that were assessed to Cascade. Explaining the proposed elimination of other market hub prices that are currently included in Schedule 663,²¹⁰ Mullins states, “the marginal cost of system balancing in the various market hubs on the Northwest Pipeline have no bearing on the costs incurred by Cascade in connection with an overrun of one of its transportation

²⁰⁷ Chiles, Exh. MAC-4Tr, 27:20-22.

²⁰⁸ Mullins, Exh. BGM-1T, 38:8-11.

²⁰⁹ *Id.* at 40:20-23.

²¹⁰ AWEC’s proposal would eliminate the use of the market prices at NW Wyoming Pool, NW south of Green River, Stanfield Oregon, Kern River Opal, and El Paso Bondad in determining the highest hub price in calculating the Overrun Entitlement Charge and instead simply use the Sumas market price. *See* Exh. BGM-1T, 4:17-19.

customers because Cascade is not responsible for procuring the balancing gas to supply the overrun.”²¹¹

Commission Determination

207 We reject AWEC’s proposed changes to Schedule 663, Overrun Entitlement Charges because this issue is not ripe for determination. Examination of whether AWEC’s suggested language has merit should be addressed following the conclusion of the complaint proceeding in Docket UG-210745.²¹² If the Commission elects to consider AWEC’s proposal in the future, the issue should be explored in a forum that includes the other natural gas investor-owned utilities, interested persons, and all potentially impacted parties, in order to create an equitable outcome.

IV. UNCONTESTED ISSUES AND DECOUPLING REVENUE

208 The Commission accepts all uncontested adjustments, as outlined in paragraph 34 *supra*, finding that those adjustments are a reasonable resolution of the issues that are supported by the evidence in the record and agreed to by the Settling Parties. Based on the decisions in this Order, we authorize an increase in Cascade’s revenue requirement in the amount of \$7.2 million, or 5.81 percent to base revenues.

209 No party contests Cascade’s proposed decoupling mechanism. In its compliance filing, Cascade is directed to update its decoupling tariff to reflect the new authorized margin revenue per customer for each applicable customer class based on the revenue requirement decision in this Order.

V. CONCLUSION

210 For the reasons discussed above, we are satisfied that the end results produced by the Settlement Agreement, as modified by the removal of certain costs and the addition of equity provisions that require the Company to engage with Highly Impacted Communities, Vulnerable Populations, and its low-income customers, represent a

²¹¹ Mullins, Exh. BGM-1T at 39:19-22.

²¹² The Commission issued its initial order in Docket UG-210745 on August 18, 2022.

reasonable compromise of the issues, are well supported by the evidence, and provide for rates that are fair, just, reasonable, equitable, and sufficient.²¹³

211 We accordingly approve the proposed Settlement subject to the conditions discussed in this Order. We also recognize that the terms of the Settlement are non-precedential and represent negotiated terms of the Settling Parties.²¹⁴

FINDINGS OF FACT

212 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

- 213 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including gas companies.
- 214 (2) Cascade is a “public service company” and a “gas company” as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. Cascade provides gas utility service to customers in Washington.
- 215 (3) On September 19, 2021, Cascade filed this general rate case with the Commission proposing revisions to its currently effective Tariff WN U-3 for gas service.
- 216 (4) Cascade and Staff entered into a Multiparty Settlement to resolve all issues in this proceeding, which they filed with the Commission on March 22, 2022.

²¹³ *WUTC v. PacifiCorp d/b/a/ Pacific Power & Light Company*, Docket UE-032065, Order 06, ¶¶ 53-54 (October 27, 2004) (citing *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591, 602, 64 S. Ct. 281, 288, 88 L. Ed. 333 (1944)) (Our “overarching concern . . . is with the end results produced under the settlement,” in accordance with the “end results” test enunciated in *Federal Power Commission v. Hope Natural Gas Company.*”).

²¹⁴ *WUTC v. Avista Corp., d/b/a Avista Utils.*, Dockets UE-080416 and UG-080417 (consolidated), Order 08 ¶ 79 (December 29, 2008) (“We favor the resolution of contested issues through settlement when a settlement’s terms and conditions comply with the law and are consistent with the public interest.”); *see also* RCW 34.05.060 (informal settlements in administrative proceedings are “strongly encouraged”).

- 217 (5) The Settlement proposes an increase to Cascade's annual revenue requirement of approximately \$10,692,992, or an 8.64 percent increase to base revenues.
- 218 (6) Pursuant to WAC 480-07-505, any request by a company to alter its gross annual revenue from activities the Commission regulates by three percent or more constitutes a general rate proceeding. The filing made by Cascade requesting an increase to base revenues of 11.10 percent (or 5.12 percent in total revenue) constitutes a general rate proceeding.
- 219 (7) The Settling Parties failed to demonstrate that the proposed revenue requirement increase will result in rates that are fair, just, reasonable, equitable, and sufficient.
- 220 (8) Maintaining Cascade's current hypothetical capital structure would result in an inflated rate of return due to the Company's recent debt issuance.
- 221 (9) A capital structure updated to 47.0 percent equity and 53.0 percent debt strikes an appropriate balance between debt and equity between the principles of safety and economy and results in the most fair, just, equitable, and reasonable outcome.
- 222 (10) This determination, in combination with the uncontested cost of debt and return on equity, results in an authorized rate of return of 6.85 percent.
- 223 (11) The uncontested adjustments to the revenue requirement outlined in paragraph 35 reasonably resolve those adjustments and are supported by the evidence in the record.
- 224 (12) Cascade provided evidence that its ROE should be maintained as 9.40 percent, consistent with the ROE authorized in the Company's last general rate case.
- 225 (13) The Company's choice in test year pursuant WAC 480-07-510 is inappropriate, untimely, and not a supported as a period that represents the rate effective period.
- 226 (14) Valuing rate base on an EOP basis to address regulatory lag is warranted given the Company's ongoing capital investments and history of under-earning from 2015 onward.
- 227 (15) The Settlement's treatment of unbilled revenues is a negotiated term based on Cascade's established methodology and is reasonable.

- 228 (16) The Settlement's treatment of bad debt expense is a negotiated term and a reasonable method for normalizing which costs should be considered and included.
- 229 (17) The deferral mechanism related to COVID contra revenues in Account 921, Office Supplies and Expenses, serves to preserve activities for future consideration.
- 230 (18) The use of actual 2020 depreciation expense reflects plant placed into service.
- 231 (19) Cascade agrees to develop and establish a community-based outreach program in consultation with its WEAFF Advisory Group consistent with the terms outlined in paragraphs 75-76 of this Order.
- 232 (20) The organizational dues and expenses related to Directors' Fees are below the line expenses that are not appropriate for ratemaking treatment.
- 233 (21) Cascade's base rates must be changed within a general rate proceeding to reflect the impacts of normalized PP EDIT reversals not only in revenues, but also in rate base, to avoid IRS normalization violations.
- 234 (22) AWEC failed to provide any evidence that the Company does, in fact, earn interest on cash accounts or identify how much interest is being earned.
- 235 (23) The Commission's Policy Statement in Docket UG-120715 does not limit the use of CRM to only four years, and the Commission should continue to allow the use of the CRM to expedite fixing pipelines that pose safety risks.
- 236 (24) The Commission does not require Cascade to refund to customers amounts recovered as a result of the Company's compliance filing in its last GRC because no issues were raised at the time of its filing in that docket. Claims regarding Cascade's compliance filing in its last GRC should have been raised at the time the compliance filing was made in that docket.

CONCLUSIONS OF LAW

237 Having discussed above in detail the evidence received in this proceeding concerning all
238 material matters, and having stated findings and conclusions upon issues in dispute
among the parties and the reasons therefor, the Commission now makes and enters the
following summary of those facts, incorporating by reference pertinent portions of the
preceding detailed findings:

- 238 (1) The Commission has jurisdiction over the subject matter of, and parties to, these
proceedings.
- 239 (2) Cascade is a natural gas company and a public service company subject to
Commission jurisdiction.
- 240 (3) At any hearing involving a proposed change in a tariff schedule the effect of
which would be to increase any rate, charge, rental, or toll theretofore charged,
the burden of proof to show that such increase is just and reasonable will be upon
the public service company. See RCW 80.04.130(4). The Commission's
determination of whether the Company has carried its burden is adjudged on the
basis of the full evidentiary record.
- 241 (4) Cascade's existing rates for gas service are neither fair, just, reasonable, nor
sufficient, and should be adjusted prospectively after the date of this Order.
- 242 (5) The Company provided sufficient evidence to support its working capital
allowance.
- 243 (6) The Commission should approve Cascade's updated cost of debt at 4.59 percent.
- 244 (7) Consistent with the evidence presented in the record, Cascade's ROE should be
maintained at 9.40 percent.
- 245 (8) Based on an equity ratio of 47.0 percent, a cost of debt of 53.0 percent, and an
ROE of 9.40, the Commission should approve and adopt an overall rate of return
of 6.85 percent for purposes of establishing revenue requirements and rates in this
proceeding.
- 246 (9) Valuing rate base on an EOP basis will result in rates that are fair, just,
reasonable, and sufficient.

- 247 (10) To account for the inadequacies in the Company's chosen test year, the Commission should adjust the overall revenue requirement.
- 248 (11) The Settlement would create unfair, unreasonable, unjust, and inequitable results and the Commission should require additional conditions to address equity considerations.
- 249 (12) The Commission should require Cascade to create a community-based organization in collaboration with its Advisory Group consistent with the direction stated in paragraphs 75-76 and authorize a budget of \$73,000 in the first year and up to five percent of the annual WEAFF program budget each year.
- 250 (13) The Commission should direct Cascade to keep the Commission informed of the community-based outreach process by filing with the Commission the same updates it shares with its Advisory Group.
- 251 (14) The Commission should reduce the revenue requirement by \$6,258 to remove organizational dues and expenses related to Directors' Fees.
- 252 (15) The Commission should authorize and require Cascade to make a compliance filing in this Docket to increase its prospective rates by \$7,188,900 annually.
- 253 (16) The decision to terminate the CRM is not currently ripe and should be evaluated when Cascade files its first multiyear rate plan.
- 254 (17) The Commission should require Cascade to provide, in both its initial compliance filing and the collaborative compliance filing, the customer bill impacts by customer class, including both the percentage increase to billed rates for all customer classes and the dollar amount increase per month for the average residential customer.
- 255 (18) The Commission should require the Parties to work collaboratively on the proper going forward treatment of PP EDIT using the guidance in this Order in paragraphs 178-181 and direct Cascade to make a compliance filing reflecting the collaborative resolution of this issue within 60 days of the effective date of this Order.
- 256 (19) Concerns with the Schedule 663, Overrun Entitlement Charges are not ripe for determination until the conclusion of the complaint proceeding in Docket UG-210745.

- 257 (20) The Commission should authorize the Commission Secretary to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.
- 258 (21) The Commission should retain jurisdiction over the subject matters and the parties to this proceeding to effectuate the terms of this Order.

ORDER

THE COMMISSION ORDERS THAT:

- 259 (1) The Commission approves the Multiparty Settlement Agreement, which is attached as Appendix A to, and incorporated into, this Order, and adopts the Settlement Agreement subject to the conditions outlined in this Order as its final resolution of this Docket.
- 260 (2) The Commission authorizes and requires Cascade to make a compliance filing in this Docket including all tariff sheets that are necessary and sufficient to effectuate the terms of this Final Order. The stated effective date included in the compliance filing tariff sheets must allow five business days after the date of filing for Commission review.
- 261 (3) The parties to the Multiparty Settlement Agreement are authorized and required to separately notify the Commission by August 31, 2022, by a letter to the Commission Secretary filed in this Docket whether each accepts the conditions of approval set by this Order on the Multiparty Settlement Agreement filed in Docket UG-210755. If either party to the Multiparty Settlement Agreement does not accept any condition of approval set by this Order, the Multiparty Settlement Agreement is deemed denied.
- 262 (4) The Commission authorizes the Commission Secretary to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Final Order.

- 263 (5) The Commission retains jurisdiction over the subject matters and parties to this proceeding to effectuate the terms of this Order.

Dated at Lacey, Washington, and effective August 23, 2022.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



DAVID W. DANNER, Chair



ANN E. RENDAHL, Commissioner

NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.

**APPENDIX A
MULTIPARTY SETTLEMENT STIPULATION**

**APPENDIX B
FINAL REVENUE REQUIREMENT**