Exhibit No. __ (MPP-1T)
Docket No. UG-17____
Witness: Michael P. Parvinen

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-17______

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF MICHAEL P. PARVINEN

July 31, 2017

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Michael P. Parvinen. My business address is 8113 W. Grandridge Blvd., Kennewick, Washington 99336-7166. My e-mail address is michael.parvinen@cngc.com.

Q. By whom are you employed and in what capacity?

A. I am employed by Cascade Natural Gas Corporation ("Cascade" or "Company") as the Director of Regulatory Affairs. In this capacity, I am responsible for the management of all economic regulatory functions at the Company.

Q. How long have you been employed by Cascade?

A. I have been employed by Cascade since September 2011. Prior to joining Cascade I was employed by the Washington Utilities and Transportation Commission ("WUTC" or "Commission") for nearly 25 years. I was employed as a Regulatory Analyst, later as a Deputy Assistant Director, and lastly as the Assistant Director of the Energy Section.

Q. What are your educational and professional qualifications?

A. I graduated from Montana College of Mineral Science and Technology in May of 1986, with a Bachelor of Science degree in Business Administration with an emphasis in accounting.

I have testified numerous times before both the WUTC and the Public Utility Commission of Oregon ("OPUC"). I have also analyzed or assisted in the analyses of numerous other utility rate filings, and participated in many utility rulemaking proceedings before the WUTC. Finally, I attended the Seventh Annual Western Utility Rate Seminar in 1987 and the 1988 Annual Regulatory Studies Program, sponsored by the National Association of Regulatory Utility Commissioners.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony in this docket?

A. My testimony will cover two primary areas. First, I will address the revenue requirements and supporting calculations. Secondly, I will discuss the steps Cascade has taken or is taking to fulfill its commitments under the settlement agreement filed by the parties to Docket No. UG-152286 ("Settlement Agreement").

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits, which are described in my testimony:

Exhibit No. __ (MPP-2)	Results of Operation Summary Sheet
Exhibit No. __ (MPP-3)	Revenue Requirement Calculation
Exhibit No. __ (MPP-4)	Conversion Factor Calculation
Exhibit No. __ (MPP-5)	Summary of Proposed Adjustments to Test Year Results
Exhibit No. __ (MPP-6)	2017 Plant Additions

III. REVENUE REQUIREMENT AND RATE REQUEST PROPOSAL

Q. Please summarize the results of the proposed revenue requirements for the Washington jurisdiction.

A. After taking into account all proposed adjustments, Cascade's current rate of return ("ROR") is 6.62 percent, as shown in Exhibit No. __ (MPP-2). The incremental revenue necessary to achieve the recommended ROR of 7.60 percent is $5,946,684 also shown in Exhibit No. __ (MPP-2). The calculation of the incremental revenue is also provided in Exhibit No. __ (MPP-3). The overall base revenue increase requested is 2.74 percent.

Q. Please describe the contents of Exhibit No. __ (MPP-2).

A. The figures shown in column (1) are the actual Washington booked figures for the test year, which is the twelve months ended December 31, 2016. The Working Capital figure on line 24 is a calculation from the Company's actual average of monthly average balance sheet. Column (2) is the summation of all adjustments, both restating and pro forma, to achieve the pro forma results of operation. Each adjustment that is included in column (2) is identified separately in Exhibit No. __ (MPP-5), and will be described later in my testimony. Column (3) is the sum of columns (1) and (2) and represents the expected results of operations in the rate year absent any rate change. Column (4) identifies the proposed revenue change and the net income impact of the revenue increase. The proposed revenue increase is also calculated in Exhibit No. __ (MPP-3). Column (5) is the results of operation expected during the rate year with proposed rates.

Q. What is the Company's proposed test year for this case?

A. Cascade has selected the twelve months ended December 31, 2016, as the test period. This 12-month period is the most recent complete period for which Cascade has data available to perform its analysis and is most representative of the costs that will be incurred by the Company in the rate year.

Q. Please describe the contents of Exhibit No. __ (MPP-3).

A. Exhibit No. __ (MPP-3) shows the calculation of the proposed revenue increase of $5,946,684 necessary to achieve the proposed rate of return of 7.60 percent.

Q. Would you please describe Exhibit No. __ (MPP-4)?

A. Exhibit No. __ (MPP-4) shows the calculation of the conversion factor which is applied to the required net income to produce the required revenue increase. The conversion factor takes into account revenue-sensitive items that change as revenue changes, including uncollectibles, Commission fees, Washington Business and Operating ("B&O") tax, and federal income taxes. The conversion factor is calculated to be 0.62120.

Q. Please describe Exhibit No. __ (MPP-5).

A. Exhibit No. __ (MPP-5) shows each of the Company's proposed adjustments, culminating in the total column shown in column (2). The Company is proposing four restating adjustments and nine pro forma adjustments.

Q. **Can you please briefly provide a definition of restating and pro forma adjustments?**

A. Yes. A restating adjustment is an adjustment to the actual booked operating results to a basis acceptable for ratemaking. A pro forma adjustment is a known and measurable change beyond the test year that is not offset by other factors.

Cascade is proposing four restating adjustments, identified as R-1 through R-4 in Exhibit No. __ (MPP-5), and nine pro forma adjustments identified as P-1 through P-9, also identified in Exhibit No. __ (MPP-5).

Q. Would you describe each of the adjustments included in Exhibit No. __ (MPP-5)?

A. Yes. The first column, column (R-1), entitled "Weather Normalization Adjustment" is an adjustment to the test period results to reflect customer usage given normal weather. This adjustment is described by Cascade witness Mr. Brian Robertson in Exhibit No. __ (BR-1T). The result is an increase to net operating income of $3,077,609.

Q. Continue with the description of the adjustments in Exhibit No. __ (MPP-5).

A. Column (R-2), entitled "Promotional Advertising Adjustment" removes advertising costs directed at promoting the Company brand or image rather than conservation or safety, consistent with WAC 480-90-223. Cascade removed in its entirety the amounts booked to FERC accounts 913 and 930.1. The result is an increase in net income of $35,565.

Column (R-3), entitled "Restate Revenue Adjustment" is described by Cascade witness Ms. Maryalice C. Rosales. The result of this adjustment is a decrease in net income of $1,501,021.

Column (R-4), entitled "Low-Income Bill Assistance" removes from the test period the booked expense prior to the implementation of the tracker tariff rate on September 1, 2016, as established in the last general rate case, Docket No. UG-152286. The result of this adjustment is an increase in net income of $346,667.

Column (P-1), entitled "Interest Coordination Adjustment" adjusts federal income taxes for the effect of the average debt rate used to calculate the rate of return applied to the proposed rate base shown in Exhibit No MPP-1, column (3), line 27. The result is a decrease in net income of $352,581.

Column (P-2), entitled "Pro Forma Wage Adjustment" has four components. The first component is the annualization of the 2016 increase effective April 1, 2016 for union employees. The second component layers on the 2017 actual wage increases for non-union and union employees. The third component adds in the 2018 estimated increases for the union and non-union employees. The non-union increase is estimated to be 4 percent, the same level granted in 2017. However, the increase won't be known until sometime in December, 2017. The Company will update the calculation to reflect the actual non-union increase awarded at a later date. The 2018 union increase is estimated to be 3.1 percent, the same as 2017. However, the contract is currently under negotiations and is anticipated to be in place prior to the completion of this docket.

The forth component is a reflection of the 2017 and 2018 wage increase associated with employees that are allocated to Cascade rather than directly assigned. In general, all non-union employees receive the same level of increases as approved by the Board of Directors. The result is a decrease in net income of $934,593.

Column (P-3), entitled “Pro Forma Plant Additions” reflects the Company’s budgeted level of capital additions expected to go into service by December 31, 2017, well before the anticipated effective date of the current filing, June 1, 2018. The proposed projects are limited to only those projects that are non-revenue producing and will not be included in the 2017 annual Cost Recovery Mechanism (CRM). Exhibit No. ____ (MPP-6) identifies each project, the proposed in service date, most current proposed budget amount, and most importantly an explanation on the investment. These are non-revenue producing upgrades and have no material offsetting factors except for one project. As the cost and timing of these projects is budgeted and estimated at this point, Cascade will update the actual costs and standing of each project as the case proceeds. The intent is adding into rate base only those projects that will be used and useful by the time rates from the current proceeding go into effect.

Q. Please describe the one revenue-producing project and the Company’s approach to making a pro forma adjustment for this project.

A. One project going into service was developed to provide reliability for all existing customer’s peak needs and also to meet a specific customer’s expanding load. In order to properly pro form the plant addition, Cascade is including the anticipated annual increase in revenue from the added customer load.

Q. Are Cascade’s pro forma capital additions consistent the Commission’s guidelines set forth in Docket No. UE-140762?

A. Yes. In Docket No. UE-140762, the Commission reaffirmed that its “long-standing practice is to consider post-test-year capital additions on a case-by-case basis following the used and useful and known and measurable standards while exercising the considerable discretion these standards allow in the context of individual cases."[1] The Commission elaborated:

> The known and measurable test requires that an event that causes a change in revenue, expense or rate base must be known to have occurred during, or reasonably soon after, the historical 12 months of actual results of operations, and the effect of that event will be in place during the 12-month period when rates will likely be in effect. Furthermore, the actual amount of the change must be measurable. This means the amount typically cannot be an estimate, a projection, the product of a budget forecast, or some similar exercise of judgment – even informed judgment – concerning future revenue, expense or rate base.[2]

Cascade expects that its pro forma capital additions will be placed in service and used and useful during the suspension period, and anticipates that costs will become known and measurable over the course of this proceeding. Although Cascade is including estimates for the pro forma capital additions expenses in this initial filing, Cascade expects to be able to provide actual costs for all projects in its rebuttal filing. Additionally, Cascade has included supporting justification for each project included in the 2017 Pro Forma Plant Addition adjustment. The supporting documentation is included in Exhibit No. ____ (MPP-6).

Q. What is the impact of the Pro Forma Plant Adjustment?

A. The net income effect of the rate base additions, for depreciation expense, property taxes, and an offsetting revenue increase is a decrease of $280,075. The rate base impact is an increase of $17,820,193.

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[1] *Wash. Utils. & Transp. Comm'n v. Pac. Power*, Docket UE-140762, *et al.*, Order 08, ¶165 (Mar. 25, 2015).
[2] *Id.* at ¶167 (internal citations omitted).

Q. Please continue with the description of the columns included in Exhibit No. ____ (MPP-5), starting with Rate Case Costs included in Column (P-4).

A. Column (P-4), entitled "Rate Case Costs" reflects the impacts of incremental costs associated with filing this general rate case over what was booked in 2016 for the last general rate case, Docket No. UG-152286. These costs will be updated later in the case as they become known and better estimated. The net income impact is a decrease in net income of $194,033.

Column (P-5) entitled "Pro Forma Compliance Department" reflects the addition of a new department at the Company that will be tasked with ensuring that Cascade is in full compliance with all state and federal pipeline safety regulations and other relevant requirements. The department—which is named System Integrity/System Management—has the responsibility of assuring the Cascade is in compliance with all state and federal pipeline safety matters. The new department consists of a director and two engineers. The Company expects that the addition of this department will help avoid future instances such as those that resulted the complaint filed in Docket No. PG-150120. The net income impact of this adjustment is a decrease of $181,736.

Column (P-6) entitled "MAOP Deferral Amortization" provides for a ten year amortization of the anticipated deferred balance associated with the approval in Docket No. UG-160787 of Cascade's request for deferred accounting treatment of incremental costs to implement the Maximum Allowable Operating Pressure ("MAOP") Determination and Validation Plan submitted to the Commission on April 29, 2016, under Docket No. PG-150120. Amortization would begin as of the effective date of this general rate increase. The deferred balance is anticipated to be $9,590,868. The net income effect is a reduction of $623,406.

Q. How does Cascade propose to treat costs associated with the implementation of the settlement in Docket No. PG-150120 ("MAOP Settlement") going forward?

A. Cascade proposes to continue to use a deferral account to not only track additional expenditures associated with the implementation of the MAOP Settlement, but also to track recovered costs. Cascade will update the amortization amount in future rate cases as additional costs are incurred and revenues recovered.

Q. Why is Cascade proposing a ten year amortization period?

A. A period of ten years was selected to reduce the impact to customers and to amortize over an approximation of the remaining life of the pipeline segments at issue in the complaint. Virtually all of the 116 segments in question were installed prior to 1970 ("Pre Code") and many prior to Cascade's acquisition of the distribution system in 1954 ("Pre CNGC"). Anything installed Pre Code is at least forty-seven years old and anything Pre CNGC is at least sixty-one years old. Mains have roughly a sixty year life. While this was not an exact calculation, it presents a rough approximation of the remaining useful life of the pipe segments at issue and supports the use of a ten year amortization.

Cascade witness Mr. Eric Martuscelli will describe the reasons why recovery of these costs is appropriate. Cascade witness Mr. Ryan Privratsky will describe the types and level of costs being incurred to implement the MAOP Settlement.

Q. Please continue with the description of adjustments included in Exhibit No. __ (MPP-5).

A. Column (P-7), entitled "Miscellaneous Charge Changes" accounts for proposed changes to certain miscellaneous fees in Schedule 200. Cascade witness Ms. Jennifer G. Gross describes the proposed changes in greater detail in Exhibit No. __ (JGG-1T). This adjustment reduces net income by $63,142.

Column (P-8), entitled “CRM adjustment” adjusts from the average of monthly average test year investment for approved Cost Recovery Mechanism (“CRM”) investments to the same level included in the most recent annual CRM filing (Docket No. UG-160788). The adjustment recognizes a full year impact of the investment as included in Docket No. UG-160788. The pro forma adjustment in column P-9 recognizes a full year of the revenue from the same CRM filing. This adjustment, along with the revenue adjustment in column P-9, fully matches the revenue with the investment. This adjustment decreases net income by $50,707 and increases rate base by $2,978,481.

Column (P-9), entitled “Pro Forma Revenue” adjusts weather normalized volumes to the most current rates. Included in this adjustment is the annualization effect of the most current CRM rates, the most current special contract rates, and the most recent general rate case. This adjustment is further described in the testimony of Ms. Rosales. This adjustment increases net income by $3,242,702.

Q. Please describe Exhibit No. __ (MPP-6).

A. Exhibit No. __ (MPP-6) identifies each project included in the Company’s request. The intent of the analysis is to comply with the Commission’s previous guidance regarding the parameters for the inclusion in rate base of pro forma adjustments based on the most recent updated capital budget. The first column identifies the funding project number. The second column identifies the funding project name. The third column identifies the expected in-service date. The fourth column identifies the primary FERC account number for the project. The fifth column identifies the most up to date expected cost of the project. The sixth column identifies the Washington portion of the project. The seventh column identifies the amount included in the current request for recovery. Finally, the eighth column identifies the footnote which provides the support for inclusion or exclusion in the current request for recovery.

Q. Please explain where the justification or support for including each project is included in Exhibit No. ____ (MPP-6).

A. The support or identified benefit of adding each project is included Page 4 – 7 of the exhibit.

IV. LOW-INCOME BILL ASSISTANCE PROGRAM

Q. Is the Company proposing a change to its Low-Income Bill Assistance program?

A. No.

Q. Please explain.

A. In the Company's last general rate case, Docket No. UG-152286, many changes were made to the program and funding levels. The effects of those changes have not even been in place for a full year yet as of the filing of this case.

Q. Even though the changes have not been in place for long, does Cascade have any initial conclusions regarding the modifications to the low-income program?

A. So far, it appears that the program changes were very positive. In fact, the changes have resulted in the Company seeking a request to allow for funding beyond the program cap approved in the Settlement Agreement.

V. COMPLIANCE WITH THE SETTLEMENT AGREEMENT IN CASCADE'S LAST GENERAL RATE CASE, DOCKET NO. UG-152286

Q. Did Cascade commit to fulfill certain obligations as a result of the Settlement Agreement filed in its last general rate case, Docket No. UG-152286?

A. Yes. Cascade agreed to the following items:

- Early implementation of the 2016 Purchase Gas Adjustment ("PGA") filing to offset the impact of the general rate case.
- Third party audit of the decoupling program.
- Initiate a load study prior to next rate case.
- Implementation of changes to Cascade's conservation program, including filing an annual plan, annual report, holding quarterly meetings, providing

advanced notice of filings to Conservation Advisory Group ("CAG"), developing a framework for analysis of Cascade's conservation program, and investigating and developing a proposal to remove barriers to low-income weatherization.

- Implementation of modifications to Cascade's Low-Income Energy Assistance program, including adoption of goals, establishing an advisory group, updating Cascade's tariff, rolling the existing balance over as the new beginning balance for Washington Energy Assistance Fund ("WEAF") program, performing a needs assessment, implementing design eligibility and funding procedures, evaluating the program, performing customer outreach, consideration of alternative designs, and annual reporting.
- Improvements to the annual Commission Basis Report; including the investor supplied working capital ("ISWC") calculation and weather normalization calculation.
- Separate conservation revenues and WEAF revenues from the Weighted Average Cost of Gas ("WACOG").
- Employ an industry accepted practice for determining unbilled revenues.
- Bifurcate booked revenue, margin revenue, and all other revenue sources.

Q. Can you provide a status update on each of these items, starting with the early implementation of the PGA?

A. Certainly. On August 1, 2016, Cascade filed its annual PGA and deferral amortization filing under Docket No. UG-160972. The result was a nearly $18 million reduction in revenue effective September 1, 2016, compared to the general rate increase of $4 million effective on the same date.

The Company agreed to a third-party audit of the decoupling mechanism. The audit is not scheduled to take place until after the third full year of the decoupling mechanism. The third full year will be complete at the end of 2019, accordingly, no action on the audit has occurred to date.

The Company agreed to initiate a load study before filing its next general rate case. The Company has taken the first steps in the load study by initiating what is internally referred to as a “citygate study.” The data collected from the citygate study will serve as the foundation for the load study. Mr. Robertson provides additional information regarding the status of the load study.

The Company agreed to a number of commitments regarding modifications to its conservation program. Some of the commitments formalized processes already being performed, while others were new. The processes already being performed are not discussed in detail; I will instead focus on changes Cascade has made to fulfill the commitments from the Settlement Agreement. Cascade filed its annual plan by December 1, 2016, and filed its annual report by June 1, 2017, which is consistent with the filing schedule for other energy companies. Since the effective date of the Company’s last rate case on September 1, 2016, Cascade has held three quarterly CAG meetings with others already scheduled for the remainder of 2017. Additionally, Cascade has scheduled quarterly CAG meetings for the full calendar year in advance of the start of the year to ensure maximum likelihood of stakeholder availability and participation. Thus far, stakeholder availability and participation in the quarterly CAG meetings has been good. Cascade has supplied all reports and filings to the CAG at least thirty days prior to filing the reports and filings with the Commission. While providing advance copies has been difficult on Cascade’s staff due to the substantial decrease in the time between the data becoming available and the time by which Cascade must prepare and finalize the reports and filings, Cascade also acknowledges the benefit of providing advance copies, which has been more open and productive dialogue regarding Cascade’s conservation program.

Q. The last item listed under conservation is low-income weatherization; can you describe the outcome of this item?

A. Yes. The Company worked with the CAG as well as our low-income community action agencies to develop a low-income weatherization program intended to result in weatherizing more homes. Cascade formalized its low-income weatherization proposal in a tariff filing made on December 29, 2016, which essentially allows for full payment of measures included in the Washington State Department of Commerce's Weatherization Priority List. The tariff became effective on February 1, 2017. As was experienced when Cascade implemented a similar tariff, it seems to take the community action agencies time to adapt to the new program.

Q. Can you provide an update on the low-income bill assistance obligations identified above?

A. Yes. First, the Company filed a tariff with the agreed modifications to the WEAF program arising out of the settlement. The modified program was designed to meet the program goals also identified in the settlement. An advisory group consisting of the rate case parties and each of the community action agencies was developed and has been meeting quarterly, usually by conference call. Additionally, many email exchanges have taken place to either provide information or to achieve consensus when needed, such as for modification to the needs assessment study.

The needs assessment study was contracted for and initially completed in May 2017. In consultation with the advisory group, additional work is being performed to analyze need for the program. So far, the total cost of the needs assessment is still below the level of funds set aside for the assessment in the Settlement Agreement.

Cascade has been providing not only annual reporting but monthly reporting to keep the agencies apprised of successes of the program and the status updates regarding the current funding balance.

The topic of alternative design or approaches has not yet been directly addressed. While there have been some initial conversations regarding observations about program design or suggestions for modification, so far no particular design alternative recommendation has been brought to the advisory group for full consideration. Cascade recommends allowing the program to reach its potential before assessing modifications to the program.

Q. Please describe the commitments made regarding the presentation of the annual Commission Basis Report (“CBR”).

A. Cascade agreed to file the CBR using the ISWC calculation methodology approved in the rate case from 2006. Cascade also agreed to calculate weather normalization in a very specific manner. Cascade complied with these commitments in the CBR filing submitted to the Commission on April 27, 2017.

Q. Is Cascade using the same methodology for the ISWC and weather normalization in this rate case?

A. No. For ISWC the presentation is slightly different. The Commission has accepted net pension costs as a working capital item in other rate cases since 2006 so Cascade has updated its methodology to be consistent with the more current approved calculations.

The weather normalization calculation proposed by the Company is consistent with the methodology used in the Company’s IRP and financial planning. The proposed methodology and support for modification is described by Mr. Brian Robertson.

Q. How has the Company addressed separating out the conservation and WEAF collections from revenues and gas costs?

A. In our last general rate case there was confusion created by the way Cascade records its deferral amortization revenues and it appeared there was a mismatch between revenues and expenses. Cascade, in this case, has eliminated the issue by pricing all weather normalized therms at the current WACOG on both the revenue and gas cost side of the books. The result is an apples-to-apples comparison where all deferrals, conservation cost recovery, WEAF recovery, and unbilled revenue have been eliminated. In other words, the revenues match the gas cost expense and are priced at the most current revenue and gas cost rates. Ms. Rosales provides testimony describing this adjustment in Exhibit No. __ (MCR-1T).

Q. How has the Company implemented an industry accepted approach to unbilled revenue determinations?

A. The Company uses an industry accepted approach to calculating its unbilled revenues. The method is based on using actual monthly pipeline data to determine true customer usage and compares the usage to the actual billed usage. The difference between true customer usage and actual billed usage provides the amount of the unbilled revenue. This is a very common approach and has been accepted by the Company's outside auditor.

Because the Company is calculating its weather normalization adjustment using pipeline data or more real-time usage, unbilled revenue is inherently already included in the weather normalization calculation, therefore any net unbilled revenue booked in the test period should be removed. Cascade has done this in the revenue adjustment identified in the previous question.

Q. And finally, regarding the last commitment, describe how the Company bifurcates the booked revenue?

A. The Company has internal reports that bifurcate booked revenues, but the books are not necessarily fully bifurcated. Again, the Company has resolved the issue with the revenue adjustment proposed by Ms. Rosales.

Q. Does this conclude your testimony?

A. Yes it does.