Exhibit BGM-7T
Dockets UG-200568
Witness: Bradley G. Mullins

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION	)	DOCKET UG-200568
Complainant,	)	
v.	)	
CASCADE NATURAL GAS CORPORATION	)	
Respondent.	)	

CROSS-ANSWERING TESTIMONY

OF BRADLEY G. MULLINS

ON BEHALF OF

ALLIANCE OF WESTERN ENERGY CONSUMERS

JANUARY 8, 2021

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CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS

EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is Vihiluoto 15, Kempele Finland FI-90440.

Q. ARE YOU THE SAME WITNESS THAT FILED RESPONSE TESTIMONY IN THIS PROCEEDING?

A. Yes. I previously filed response testimony in this matter on behalf of the Alliance of Western Energy Consumers ("AWEC") regarding the request of Cascade Natural Gas Corporation ("Cascade") for a 12.6% increase in margin rates, effective July 21, 2020.

Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?

A. I discuss my review of the Response Testimony of Staff and Public Counsel regarding Cascade's filing and proposed revenue requirement increase.

Q. ARE YOU CONTINUING TO RECOMMEND THAT NO CHANGE BE MADE TO THE EXISTING RATES OF CASCADE APPROVED IN UG-190210?

A. Yes. In Response Testimony, I recommended that the Commission find that Cascade failed to carry its burden to show that its current rates are not fully sufficient to meet its needs, and order Cascade to make no change to the existing rates that were recently approved in UG-190210. Based upon my review of the Response Testimony of Staff and Public Counsel, I continue to support that recommendation. Notwithstanding, I have modified my revenue requirement calculations to reflect the positions of other parties, as well as additional discovery received with respect to Cascade's Tax Cuts and Jobs Act ("TCJA") revenues. As detailed in Mullins, Exh. BGM-8 and Table 1CA, below, my analysis now supports a $4,728,930 reduction to Cascade's revenue requirement. The adjustments that have changed relative to my Response Testimony are highlighted below.

TABLE 1CA
Washington Revenue Requirement Impacts of Recommended Adjustments
Whole Dollars

1	**Cascade Proposed**		**$ 14,281,139**
2	**Adjustments:**		
3	RoR-1	Cost of Equity	(2,764,543)
4	RoR-2	Cost of Debt	(616,377)
5	RoR-3	Capital Structure	(982,542)
6	Depr-1	Depreciation Study (Staff DR 127)	(2,276,888)
7	R-4	EOP Rate Base	(2,332,145)
8	P-3 (A1)	UG-190210 Pro Forma Additions	(3,970,462)
9	P-3 (A2)	Pro Forma Additions Not in Service	(740,319)
10	P-3 (A3)	Routine Capital Additions	(3,444,897)
11	P-3 (A4)	2020 Customer Growth	1,281,027
12	P-3 (A5)	Pro Forma Retirements	(493,017)
13	P-3 (A6)	Removal Costs	(153,064)
14	R-6 (A7)	Affiliate Bonuses / Incetive Norm.	(1,255,374)
15	R-5 (A8)	Affiliate Wages and Salaries	(498,092)
16	R-5 (A9)	Cascade Wage Escalation	(1,046,762)
17	A10	Director Fees	(183,351)
18	R3 (A11)	Tax Reform Revenue Normalization	-
19	P-1	Tax Benefit of Interest	466,736
20	**Total Adjustments**		**$ (19,010,069)**
21	**Adjusted**		**$ (4,728,930)**

Q. HAVE CONDITIONS IN CASCADE'S SERVICE AREA CHANGED SINCE YOU SUBMITTED RESPONSE TESTIMONY?

A. No. If anything, the conditions related to the ongoing COVID-19 pandemic in Cascade's service area have worsened. It is not in the public interest to provide Cascade with extraordinary rate relief when many of the ratepayers Cascade is serving are experiencing unprecedented hardship. While there is justification to reduce Cascade's rates, my recommendation is to make no change to Cascade's revenue requirement at this time.

II. RATE OF RETURN

Q. WHAT COST OF CAPITAL DID YOU RECOMMEND IN RESPONSE TESTIMONY?

A. I recommended a cost of capital that maintained Cascade's currently approved return on equity ("ROE") of 9.4%. I also recommended reducing Cascade's cost of debt in recognition of new debt issuances. Finally, I recommended increasing the debt component of Cascade's capital structure to better recognize Cascade's high leverage, relative to its overall rate base. AWEC's proposed cost of capital may be found in Table 2CA, below.

Table 2CA
Staff's Proposed Cost of Capital

Cost of Capital Component	Capital Structure	Cost	Weighted Cost
Total Debt	52.90%	4.54%	2.40%
Common	47.10%	9.40%	4.43%
Total	100.00%		6.83%

Relative to Cascade's filing, my recommendation resulted in a $4,363,426 reduction to revenue requirement.

Q. WHAT COST OF CAPITAL HAS STAFF RECOMMENDED?

A. Staff Witness Parcel has proposed a cost of capital that consists of a 9.25% ROE, and a capital structure weighted towards debt. Staff's proposed cost of capital may be found in Table 3CA, below:

Table 3CA

Staff's Proposed Cost of Capital

Cost of Capital Component	Capital Structure	Cost	Weighted Cost
Total Debt	51.50%	4.74%	2.44%
Common	48.50%	9.25%	4.49%
Total	100.00%		6.93%

Q. WHAT COST OF CAPITAL HAS PUBLIC COUNSEL RECOMMENDED?

A. Public Counsel witness Woolridge has proposed a cost of capital that consists of a 9.00% ROE and a capital structure that is consistent with the stipulation in UG-190210. Public Counsel's cost of capital may be found in Table 4CA below.

Table 4CA

Public Counsel's Proposed Cost of Capital

Cost of Capital Component	Capital Structure	Cost	Weighted Cost
Total Debt	50.90%	4.74%	2.42%
Common	49.10%	9.00%	4.42%
Total	100.00%		6.83%

Q. HOW DO THE COST OF CAPITAL RECOMMENDATIONS OF THE NON-COMPANY PARTIES DIFFER?

A. In contrast to Cascade's proposal for a 7.09% cost of capital, the non-company parties are recommending an overall cost of capital that falls within a range of 6.83% to 6.93%. There are minor differences between the non-company parties' recommendations, however. While I recommended retaining Cascade's currently approved ROE, Staff and Public Counsel are recommending a lower ROE. The non-company parties also have differing positions with respect to capital structure. Finally, my cost of debt, recommendation considered recent, low-cost debt issuances; whereas the other parties did not consider these new debt issuances.

Q. DO YOU AGREE WITH STAFF AND PUBLIC COUNSEL THAT THE ECONOMIC INDICATORS SUGGEST THAT CASCADE'S COST OF EQUITY HAS DECLINED SINCE UG-190210?

A. Yes. I agree with both Staff and Public Counsel that most economic indicators suggest that Cascade's authorized ROE has declined from the 9.4% level approved in UG-190210. Notwithstanding, Cascade has not justified changing its rates relative to UG-190210, irrespective of the ROE that is approved in this case. Since AWEC is recommending no change to Cascade's rates, it is not necessary to undertake the extensive analyses necessary to determine the appropriate levels of equity compensation for Cascade's shareholders. If, however, the Commission concludes that a rate increase is justified, AWEC would support the lower ROE recommendations of Staff and Public Counsel.

Q. HAVE ANY OTHER NATURAL GAS UTILITIES IN WASHINGTON PROPOSED A 9.4% ROE SINCE CASCADE SUBMITTED ITS FILING?

A. Yes. Northwest Natural Gas Corporation ("NW Natural") recently submitted a request for a general rate revision where it has proposed a 9.4% ROE.[1] This is further evidence that maintaining the status quo for Cascade is appropriate in this case and that its proposed 90 basis point increase to its ROE is entirely unjustified.

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[1] *W.U.T.C vs. Northwest Natural Gas Corporation*, UG-200994, Kravitz, Exh. ZDK-1T at 2:15-18.

Q. WHY DO YOU SUPPORT A HIGHER DEBT PERCENTAGE THAN THE OTHER PARTIES?

A. In Table 5 of my Response Testimony, I demonstrated that Cascade maintains a high leverage ratio relative to its overall rate base. The leverage ratio I calculated would justify a debt percentage as high as 65.6%. Absent this analysis, I would agree with Staff's position for a hypothetical debt ratio of approximately 51.5%. Notwithstanding, the leverage ratio that I calculated was so significant, I believe it is necessary to adjust the capital structure by a larger amount. Accordingly, I have proposed to increase the currently approved debt percentage of 51.9% by 2 percentage points to 52.9%.

Q. DID THE OTHER PARTIES CONSIDER THE NEW DEBT ISSUANCES YOU IDENTIFIED IN RESPONSE TESTIMONY?

A. No. Neither Staff nor Public Counsel considered Cascade's new debt issuances in their cost of capital recommendations. Given the extremely low corporate bond yields identified in my Response Testimony, these new debt issuances are particularly important for determining Cascade's cost of capital. As demonstrated in Mullins, Exh. BGM-5, these issuances will result in an approximate 20 basis point reduction to Cascade's cost of debt and are appropriately considered in the cost of capital calculation.

Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO YOUR RECOMMENDED COST OF CAPITAL BASED ON THE POSITIONS OF OTHER PARTIES?

A. Based on AWEC's recommendation to make no changes to Cascade's currently approved rates, AWEC is not proposing any adjustments to the cost of capital recommendation contained in my Response Testimony. If, however, the Commission is inclined to increase Cascade's rates, AWEC would support the lower ROE recommendations of Staff and Public Counsel.

III. RATE BASE AND PRO FORMA CAPITAL ADDITIONS

Q. WHAT WERE YOUR RECOMMENDATIONS RELATED TO CASCADE'S CAPITAL FORECAST IN RESPONSE TESTIMONY?

A. I recommended several adjustments with respect to Cascade's capital forecast, which were detailed in Mullins Exh. BGM-6. In recognition of the fact that Cascade filed this rate case only a few months after its last rate case was concluded, I recommended using an average-of-monthly-averages rate base calculation, rather than Cascade's proposal to use end-of-period ("EOP") rate base. I recommended that certain pro-forma capital additions that were included in Cascade's last rate case not be considered again in this proceeding. I also recommended removing pro form capital additions that were not placed into service at the time of filing Response Testimony and blanket capital items.

Q. DID STAFF SUPPORT THE USE OF END-OF-PERIOD RATE BASE (ADJUSTMENT R-4)?

A. Not necessarily. Staff acknowledged that "the Commission's standard for assessing utility earnings relies on measuring rate base on an average-of-monthly-averages (AMA) basis."[2] Similar to my Response Testimony, Staff also acknowledged that "Cascade provided no testimony or evidentiary support for its use of EOP rate base."[3] Staff did not oppose the use of EOP rate base, however, because it was already recommending a reduction to revenues relative to the rate approved in UG-190210.[4] Notwithstanding, Staff did not necessarily support the EOP rate base adjustment.

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[2] McGuire Exh. CRM-1T at 9:15-16.

[3] McGuire Exh. CRM-1T at 13:14.

[4] McGuire Exh. CRM-1T at 15:11-16:4.

Q. DO YOU AGREE WITH STAFF?

A. I agree with Staff that Cascade has failed to justify the use of EOP rate base, which is a further reason for the Commission to dismiss Cascade's proposal for a rate increase.[5] I disagree, however, that it is appropriate to evaluate Cascade's revenue requirement using EOP rate base. As Staff notes, the Commission approved a rate increase for Cascade only a few months before it filed this case. Further, Staff notes that Cascade intends to file another rate case in 2021, shortly after the approval of new rates in this proceeding. Since Cascade is updating its rates with such frequency, it is not experiencing regulatory lag and it is more appropriate to consider Cascade's revenue requirement using the traditional average-of-monthly-averages approach. Approving an EOP rate base will do nothing to assuage the frequency of rate cases for Cascade's ratepayers, and therefore, EOP rate base is not an appropriate regulatory tool to use in this proceeding.

Q. WHAT DID STAFF AND PUBLIC COUNSEL PROPOSE WITH RESPECT TO PRO-FORMA PLANT ADDITIONS (ADJUSTMENT P-3)

A. Relative to Cascade's request for $66 million in pro forma plant additions, Staff witness Panco recommended the inclusion of just four pro forma projects, totaling approximately $6.9 millions.[6] Public Counsel Witness Garrett recommends that the Commission reject Cascade's entire pro forma plant additions adjustment. Similar to my Response Testimony, Public Counsel noted that Cascade's approach is faulty because it did not

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5 McGuire Exh. CRM-1T at 16:2-4.

6 Panco, Exh. DJP-1T at 3:17-18.

consider the incremental accumulated depreciation that will occur subsequent to the test period, which I calculated to be $29,358,446.[7]

Q. WHAT PROJECTS HAS STAFF PROPOSED TO INCLUDE IN REVENUE REQUIREMENT?

A. As noted in Panco, Exh. DJP-3, Staff identifies four projects to include as pro forma plant additions: two phases of the Arlington Gate project, the Bellingham 8" HP Project, and the Moses Lake 4" PE Project.

Q. DO YOU AGREE WITH INCLUDING THESE PROJECTS AS PRO FORMA PLANT ADDITIONS?

A. No. The two Arlington Gate projects were already included in Cascade's 2019 General Rate Case, with expected online dates of June 1, 2019 and December 31, 2019. In fact, the project FP-300233 – Arlington 6" HP Reinforcement was included in the 2019 GRC capital forecast for calendar year 2019, but excluded from revenue requirement because, with a proposed capital budget of just $833,125.93, it was not considered a major pro-forma plant addition. Note that in this case, the capital budget for that same project is nearly four times the original amount. Since the Arlington gate projects were already included in rates in the 2019 GRC, it is not necessary, nor fair to ratepayers, to include them again in this proceeding.

Similarly, the Bellingham 8" HP Project was included in the 2019 GRC Forecast with an online date of August 26, 2019. That project, however, was not actually placed

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7 Garrett, Exh. MEG-1T at 8:2-11 (Note that Public Counsel's estimate of $27 million of annual depreciation accumulation on existing property in the forecast period is slightly less than the amount I calculated. My calculation was based on end of period plant balances, and I have not reconciled the difference between the two estimates).

into service until January 20, 2020, subsequent to the test period in this case. As I discussed in Response Testimony, the fact that Cascade filed a new rate case so quickly after the conclusion of its last rate case is not a reason to provide it with a second opportunity to include the same pro forma capital additions in this case. If Cascade is unwilling to wait until the projects are included in test period results to file its next rate case, it is not reasonable to provide Cascade with a second bite at the apple to include the projects again in revenue requirement on a pro forma basis.

Finally, the Moses Lake 4" PE Project had a capital budget of $433,146 and an actual capital cost of just $212,170. In my review, I found this project to be too small to be considered a major capital addition and excluded it from my pro-forma analysis. As I discussed in Response Testimony, small and routine capital additions after the test period are best considered an offset to the ongoing accumulated depreciation that Cascade will accrue subsequent to the test period.

Q. ARE CASCADE'S CAPITAL BUDGETING PRACTICES REASONABLE?

A. As Staff Witness McGuire notes, Cascade's capital budgets have been "wildly inconsistent." I agree. Given these inconsistencies, Cascade has not been able to demonstrate that its capital forecast is reliable. There seems to be a disconnect between the actual capital work Cascade is performing and the regulatory budgets that Cascade is submitting in rate cases.

IV. WAGES AND SALARIES

Q. WHAT DID YOU RECOMMEND RELATED TO WAGES AND SALARIES?

A. I recommended four adjustments related to wages and salaries in Response Testimony. First, I recommended eliminating all incentive payments made to affiliate employees, since the payments made to those employees was not made for the benefit of Cascade's Washington ratepayers. Second, I recommended eliminating all wage escalation in 2020 and 2021 associated with Cascade's affiliate cross-charges. Third, I recommended that wage escalation for Cascade non-union employees be limited to 2% in 2020, and I excluded any further escalation assumptions for 2021. Finally, I recommended removing 50% of director fees, consistent with the Commission's practice.

Q. WHAT DID PUBLIC COUNSEL RECOMMEND WITH RESPECT TO INCENTIVE PAYMENTS (ADJUSTMENT R-6)?

A. Public Counsel witness Garrett noted that Cascade's test year non-executive incentive compensation payout is higher than its stated target level for short term incentives.[8] Accordingly, Public Counsel proposed a normalization adjustment to reduce the non-executive compensation to be consistent with the actual incentives incurred over the period 2014-2018.

Q. IS PUBLIC COUNSEL'S RECOMMENDATION CONSISTENT WITH YOUR RECOMMENDATION REGARDING INCENTIVE PAYMENTS?

A. No. In addition to removing executive incentives, I recommended removing all incentive amounts that were allocated to Cascade via inter-corporate cross charges, since the incentive policies of Cascade's affiliates do not necessarily provide benefits to

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8 Garrett, Exh. MEG-1T at 18:15-16

Washington ratepayers. Public Counsel's analysis was a normalization method that still retained the inter-corporate incentive amounts.

Q. DO YOU AGREE WITH PUBLIC COUNSEL'S ANALYSIS?

A. Yes. While I disagree with including the inter-corporate incentive allocations, I agree with Public Counsel's analysis that the incentive amounts provided to Cascade's employees exceed the average amounts paid out over the previous five years. Accordingly, I have applied the normalization approach recommended by Public Counsel to my recommendation. I have included only the incentives paid to Cascade employees, but on a normalized basis, consistent with Public Counsel's recommendation. This approach results in a further $449,440.40 reduction to the incentives amount I had included in revenue requirement in Response Testimony.

Q. WHAT ADJUSTMENT DID STAFF PROPOSE WITH RESPECT TO WAGES AND SALARIES (ADJUSTMENTS R-5 / P-2)?

A. Staff witness Huang recommends that the Commission reject the 3% union and 4% non-union wage increase that Cascade has proposed for 2021. Staff notes that the 2021 wage increase is not known and measurable; is not required by contract; and not an appropriate considering the current pandemic situation. Staff also recommends limiting the 2020 non-union wage increase to 3%.[9]

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION?

A. Similar to Staff, I also recommended that the Commission reject the union and non-union wage increases that Cascade proposed for 2021. I also agreed with Staff that the 4% non-

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[9] Huang, Exh. JH-1T at 3:13-20.

union wage increase for 2020 is not supported. While Staff proposed limiting the 2020 non-union wage increase to 3%, my recommendation was to limit the wage increase to 2%, the approximate rate of inflation. As Staff notes, labor expenses are a category of costs that Cascade can control, and assuming a wage increase that is nearly double the rate of inflation is not reasonable in the current economic environment.

In addition to limiting the 2020 non-union wage increase to 2%, however, I also recommended that the entire amount of wage escalation in 2020 assumed with respect to intercorporate cross charges from affiliates also be eliminated from Adjustment R-5. The inter-corporate charges are allocated costs from affiliates, not wages paid by Cascade. It is not reasonable to assume that these allocated costs will increase even if Cascade's affiliates do approve such a significant wage increase. Further, the Commission has no jurisdiction over the labor policies of Cascade's affiliates. This lack of jurisdiction suggests that it is not appropriate to make any forward-looking assumption with respect to affiliate labor practices. Thus, in addition to reducing the 2020 non-union wages, it is also necessary to eliminate the 2020 wage increase assumed for allocated wages in order to produce a reasonable level of wage expenses in test period revenue requirement.

V. TAX CUTS AND JOBS ACT REVENUES

Q. WHAT DID YOU RECOMMEND WITH RESPECT TO THE TAX CUTS AND JOBS ACT IN RESPONSE TESTIMONY (ADJUSTMENT R-3 (A11))?

A. In my Response Testimony, I noted that Cascade did not normalize any of the surcharge and sur-credit revenues from its margin revenue requirement, including sur-credit revenues associated with the TCJA. I proposed an adjustment to remove the TCJA sur-credit revenues from revenue requirement. Based on my review of further discovery, it appears that there were amortization amounts included in Cascade's results that offset revenue requirement associated with the TCJA sur-credit revenues. Accordingly, I have removed the TCJA revenues adjustment from my revenue requirement recommendation.

Q. ARE YOU STILL CONCERNED WITH THE WAY THAT CASCADE IS ACCOUNTING FOR THE TCJA SURCREDIT ITEMS?

A. Yes. When calculating margin revenue requirement, I believe it would be more appropriate for Cascade to remove all costs and revenues associated with supplemental schedules as a restating adjustment.

Further, Cascade's accounting for the TCJA items is not necessarily clear, nor detailed. In discovery, for example, Cascade claims that Protected Excess Deferred Income Taxes are being amortized to a non-descript tax depreciation account, and the interim tax-savings amounts are being amortized against other revenues.

In addition, Cascade's accounting does not segregate the Accumulated Deferred Income Tax Balances associated for Excess Deferred Federal Income Taxes ("EDFIT") from its other Accumulated Deferred Income Tax Balances. In response to AWEC Data Request 38, Cascade was unable to produce the EDFIT balances because they are not being discretely tracked. Accordingly, it is not possible to know the precise amount of EDFIT that is include in rate base, nor the amount that has been amortized in Cascade's results. This accounting detail may prove to be critical if there is a subsequent increase to the tax rate under the new administration but is entirely absent in Cascade's filing. While

I am not proposing an adjustment at this time related to these issues, further clarity and explanation of these items is warranted in Cascade's next general rate case.

Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

A. Yes.