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Via UTC Web Portal

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COMMISSION

RE: **Docket U-180907 – Comments of Cascade Natural Gas Corporation**

Dear Mr. Johnson,

Cascade Natural Gas Corporation ("Cascade or Company") responds to the questions presented in the Washington Utilities and Transportation Commission's ("Commission") "Notice of Opportunity to File Written Comments" ("Notice")[1] by respectfully submitting the following comments for the Commission's consideration.

Introduction

Cascade very much appreciates the Commission's ongoing review of its current regulatory framework and its expressed interest in evaluating the use of an Expedited Rate Filing ("ERF") mechanism. Cascade welcomes this opportunity to express its views and provide recommendations or guidance to improve the Commission's current regulatory framework.

Cascade's initial comments in this docket, submitted on January 17, 2019, were aimed at providing suggestions to alleviate regulatory lag. The comments and suggestions here are focused on the specific expedited rate filing (ERF) idea.

[1] The Commission's Notice was filed in Docket U-180907 on March 21, 2019.

Policy Issues

1. **Regulatory Lag**
   a. **Are ERFs an important tool to address regulatory lag?**

ERFs can be an important tool to address regulatory lag. ERFs are not the end-all or be-all answer, but certainly can be an important tool. In previous comments Cascade presented several tools to address regulatory lag. Many of the ideas can be used in unison or in conjunction with others, including ERFs. As an example, the Commission could grant interim rates in an ERF to further reduce regulatory lag.

   b. **Do ERFs effectively and efficiently remedy regulatory lag?**

ERFs can be an effective and efficient remedy to reduce regulatory lag. On a stand-alone basis an ERF is certainly better than no ERF. An ERF does remove a certain amount of regulatory lag. An ERF does not or should not remove all regulatory lag.

   c. **Are there other non-ERF solutions that would more effectively or efficiently resolve regulatory lag?**

Cascade believes that an ERF is the single best tool to remove regulatory lag given Cascade's particular circumstances. However, other mechanisms or tools may be a better tool given other circumstances. For example, Cascade is currently experiencing extreme capital investment. An ERF directed at recovery of and on investment is a better fit and benefit than an ERF aimed at extraordinary increases in operating and other expenses. Other companies may have regulatory lag pressures that may need to be addressed differently.

   d. **If regulatory lag is cited as a reason for serial general rate cases, and ERFs alleviate regulatory lag, to what extent should the filing of an ERF be tied to the commitment to file fewer rate cases?**

Based on Cascade's circumstances and our ERF proposal that is described later, Cascade proposes that an ERF filing would be in lieu of a general rate case in any particular year. Cascade views this as important in order to gain any efficiencies and cost savings for all intervenors and ultimately rate payers.

2. **Responsive to change**
   a. **Are companies, ratepayers, and the Commission responding fast enough to the changing energy landscape? If not, how can ERFs be used to help companies, ratepayers, and the Commission respond?**

The ERF, presented by Cascade later, is designed for Cascade's circumstances. The proposed mechanism addresses, at least partially, regulatory lag associated with increasing amounts of investment and operating expenses. The mechanism does not address potential operating changes such as implementing new programs or redesigning fundamentally how energy services are provided. However, implementing an ERF could help in dealing with incremental costs associated with such changes. Cascade's proposed ERF could be modified to incorporate specific pro forma adjustments limited to narrowly focused items if the Commission deems it is in the public interest to do so.

3. **Other policy issues**
   a. **Are there other policy issues that ERFs could address?**

ERFs not only alleviate regulatory lag which is a deterrent to a company investing in system improvements, ERFs provide benefits to rate payers and all intervenors in reducing costs and time that is involved in the alternative general rate case. From the standpoint of how to alleviate perpetual general rate case fatigue and rate case costs, ERFs can meet this objective.

From a policy perspective an ERF can alleviate concerns that arose from the implementation of a multi-year rate plan. An ERF requires a filing in each of the outer years but avoids the pre-approval of rate base yet to be in service issue. An ERF isn't a perfect replacement and adds extra regulatory lag due to the delayed implementation, however if the ERF were teamed with interim rate relief the effect would be pretty close to the benefits of a multi-year rate plan.

   b. **How do ERFs effectively and efficiently address these additional policy issues?**

General rate cases are time intensive and expensive for every party involved. ERFs can be processed in a much more compressed time frame because of the limited focus, which significantly reduces the cost which ultimately is passed to the rate payers. Appropriate safeguards such as earnings sharing mechanisms provide assurances that rates are fair, just, reasonable, and sufficient.

   c. **Are there non-ERF solutions that would more effectively or efficiently resolve these policy issues?**

None of the other suggestions provided by Cascade in its earlier comments in this docket (submitted on January 17, 2019, meet the objective of reducing general rate case costs and fatigue like an ERF does. Most suggestions were additions or enhancements to general rate case filings such as the use of end of period rate base, interim rate relief, or deferral mechanisms. However, deferral mechanisms where the return of and on new incremental investment or incremental operating expenses are deferred until a future rate case could certainly not only reduce regulatory lag but also postpone the need for general rate cases.

Threshold Criteria

1. **Under what circumstances is an ERF appropriate?**

An ERF is appropriate if a company can demonstrate regulatory lag or the need for rates given a restricted model. As an example, Cascade below identifies a potential model that meets its need but is much more limiting in scope than a general rate case. Cascade accepts the restriction that no or perhaps limited pro forma adjustments would be included. Thus, Cascade's proposal results in an increase less than could be obtained in a general rate increase. The benefit to Cascade is that even though revenue would be reduced it would be recognized earlier than in a general rate case.

2. **What should be the standard to demonstrate the need for expedited rate relief?**

The standard should be twofold. First, the request should be less than the three percent threshold for a general rate case. Second, the results should demonstrate a need. In Cascade's proposal the request is based on historical results with restating adjustments showing a revenue requirement to meet its authorized return.

3. **In the context of an ERF, what is the appropriate basis for determining whether a company's current rates are or are not fair, just, reasonable, and sufficient? Is the basis different than the standard for a general rate case (GRC)?**

The burden of proof rests on the utility to demonstrate that current rates are not fair, just, reasonable, and sufficient. The basis is no different than for a general rate case. All parties should be given adequate opportunity to vet and analyze any request to have a reasonable level of satisfaction that the request is fair, just, reasonable, and sufficient.

Methodology

1. **What is the appropriate conceptual framework for an ERF?**

Cascade proposes a mechanism substantially different than the recent PSE ERF filing. Cascade's proposal for an ERF approach is simple and straightforward. The ERF would be based on the annual Commission Basis Report ("CBR") and is designed to recover the delta difference between the CBR's adjusted results and the Company's authorized rate of return.

Cascade would propose to be allowed to file an ERF when the CBR following the most recent rate case order is submitted to the Commission. This would ensure that the ERF is based on contemporary results. Further, Cascade proposes that the filed tariffs include an effective date 90 days from the date of filing. This would allow Staff and intervenors a reasonable opportunity to review the per books data and the few restating adjustments expected to be included in the filing. Put into context, 90 days is comparable to the review time parties have in Cascade's current general rate case prior to the first settlement discussions. The Company proposes that the Commission's discovery rules would apply and the timeline for responses be adjusted to reflect the determined review period. As in general rate cases, all responses would go to all parties. This practice would ensure that all parties have an opportunity to adequately review the filing.

As noted above, Cascade's proposed ERF would be limited to certain accounting adjustments, and not include pro forma adjustments or changes to cost of service, rate spread and rate design, and cost of capital. Considering the streamlined nature of the filing, the Company believes the three-month review period to be reasonable and would allow parties an adequate period to analyze the filing. Certain adjustments may be necessary to properly reflect or determine that rates are or are not fair, just, reasonable, and sufficient. For example, new rates from a general rate case or pipeline cost recovery mechanism may need to be reflected along with associated costs in order to properly match revenues, expenses, and rate base.

Cascade would file an ERF instead of a general rate case (GRC) to reduce regulatory lag by shortening the time between filing and approval of new rates. The idea behind Cascade's proposed ERF is simplicity and efficiency. A company would make a filing with tariffs containing a proposed effective date three months later. It is anticipated that the filing would be approved, rejected, or suspended just prior to the effective date at a regularly scheduled public open meeting. This means that the company is taking the risk that a reasonable result can be agreed upon by the parties and presented to the Commission for approval in the open meeting process. If a reasonable result cannot be reached, the probable outcome would be that Staff, or any other party recommends suspension and if the Commission agrees with suspension, the company would most likely withdraw the filing and prepare a full-blown general rate case. Again, the risk of losing three months is on the company.

Under the Cascade proposal any ERF would be limited to less than a three percent increase in revenues so that it falls below the threshold from meeting the definition of a general rate case.

The intent of Cascade's proposal is that the company would file an ERF in lieu of a general rate case. If the ERF is approved, then the Company would be precluded from filing a general rate case until a new complete test year has passed and can be used. For example, if an ERF case were filed based on 2019 results (*i.e.*, the filing would be made in April 2020), then the company would have to wait to file a general rate case until it had results from 2020 to use as the test year for a 2021 filing. Cascade would recommend the ability to request a waiver from the Commission if the company can demonstrate good clause. If granted the company would be allowed to file a general rate case prior to the end of the test year following the ERF proceeding.

2. **Should an ERF use a new test year or should an ERF use the test year from a recently completed general rate case and merely extend the pro forma period? If the pro forma period is extended, should an ERF only include those capital additions that were not included in pro forma adjustments of the last GRC?**

Cascade proposes an update to the test year as provided in the previous item. However, Cascade could see where extending the pro forma period from the last general rate case for major expense items (depreciation expense and wages in particular) along with capital additions could work as an acceptable approach. Parties would need to be aware of the impacts of settlements on the opportunity to file an ERF under this type of proposal. If a general rate case settlement is a black box, then there may not be an agreed upon starting point for such an approach. Or, if in the process of give and take during a settlement, certain items may have extending impacts or unintended consequences.

3. **Should an ERF include all new plant in service, or just major investments? Should it exclude revenue-producing plant?**

Cascade proposes that all new investment be included otherwise there would still be significant regulatory lag. Only including major projects potentially leaves a significant amount of investment subject to regulatory lag. Also, each general rate case has brought a different definition for what is a major investment. Certainly, the definition is different between a natural gas utility and an electric utility.

Cascade proposes the revenue producing investment along with the matching of the additional revenue be included. Overall, the line extension policy of the natural gas companies has been established to encourage growth into underserved or unserved areas. The direction of these line extension policies was to extend the economic feasibility period thus applying more rate pressure in the early years which adds another layer of regulatory lag. Including both the investment and offsetting revenue will alleviate some of this lag.

Under Cascade's proposal the company would still be subject to significant regulatory lag pressures such as increased capital investment during the rate year, increased depreciation expense, increased wages, etc. that occur during the rate year. Cascade would accept that lag knowing the possibility of more expedient timely recovery through the expedited process than through constant rate case filings exists.

4. **How should plant additions be treated in an ERF if parties do not have time to perform a thorough prudence review? Should ERF rates be subject to refund if prudence determination for investment cannot be completed?**

Under the Cascade proposal all parties would have adequate time to perform their due diligence in regard to prudence. This process is made easier under Cascade's proposal in that all investment included in the mechanism is in service and used and useful before the filing is made. Thus, there would be no need for a subject to refund component. However, if the ERF were put in place using interim rates to further reduce, but not eliminate, regulatory lag, until the review period is complete, then subject to refund would be an appropriate component.

5. **How should expenses be handled in an ERF? Should expenses update to actuals or should they remain tied to the previous GRC?**

Cascade is proposing to update the test period thus all expenses are updated to the new test period. Cascade has evaluated this type of a mechanism where all revenues and expenses are held to the previous GRC and only plant additions are adjusted. The results indicated that the mechanism did not provide adequate rate relief and a new GRC including the inherent regulatory lag was the appropriate path forward. For Cascade, the expenses increased enough over time that just recognizing investment was not adequate.

It is also possible that changes and advancements in the industries, may be more expense intensive than investment, so limiting or restricting the ERF to just capital may make the mechanism moot. Each company may find themselves in differing circumstance so flexibility in mechanisms and approach may be necessary.

General Considerations

1. **What are the benefits and drawbacks of an ERF relative to a GRC?**

The benefits of the ERF as proposed by Cascade are:

- Significant reduction in regulatory lag
- Early implementation of rates recognizing investment already in service
- Significant reduction in rate case costs for all parties
- Significant reduction in time commitments due to limited scope

Drawbacks of the Cascade proposed ERF:

- Risk of suspension resulting in lost time, cost, and revenue
- Lack of recovery of pro forma cost increases, doesn't match rates with rate year
- Only address a portion of regulatory lag

2. **In what ways does an ERF create or relieve administrative or process burdens for responding parties?**

The Cascade proposed ERF relieves a significant amount of burden for all parties. There is no formal process schedule, so there is significant reduction in rate case costs and time with the added benefit of adequate, focused review time for complete analysis. Instead of an eleven-month process plus filing preparation of several months for a general rate case, the Cascade proposal limits the focus and reduces the time to approximately four months.

Cascade provided specific information as to its historical, current, and future operating results and capital investment to support its exposure to a significant amount of regulatory lag under the Commission's current rate making framework, so they won't be repeated here.

In closing, Cascade appreciates the Commission's commitment to address this important tool to help alleviate but not remove regulatory lag and would welcome any questions regarding the ratemaking principles and mechanism expressed herein. Please refer all questions to Michael Parvinen at 509-734-4593 or at michael.parvinen@cngc.com.

Sincerely,

/s/ Michael Parvinen

Michael Parvinen

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