

**BEFORE THE WASHINGTON  
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS CORPORATION,

Respondent.

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DOCKET UG-170929

RESPONSE TESTIMONY OF DONNA M. RAMAS (DMR-1T)

ON BEHALF OF PUBLIC COUNSEL

**FEBRUARY 15, 2018**

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DOCKET UG-170929

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**EXHIBITS LIST - CONTINUED**

Exhibit DMR-18	Cascade Natural Gas Response to Public Counsel Data Request No. 100
Exhibit DMR-19	Cascade Natural Gas Response to Public Counsel Data Request No. 50
Exhibit DMR-20	Cascade Natural Gas Company Workpaper MPP WP-1.14
Exhibit DMR-21	Cascade Natural Gas Response to UTC Staff Data Request 109
Exhibit DMR-22	Executive Summary FP 315607 from Cascade Natural Gas Response to UTC Staff Data Request 65 CD
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Exhibit DMR-41	Cascade Natural Gas Response to Public Counsel Data Request 109

1 **I. INTRODUCTION**

2 **Q: Please state your name, occupation and business address.**

3 A: My name is Donna M. Ramas. I am a Certified Public Accountant licensed in the State  
4 of Michigan, with offices at 4654 Driftwood Drive, Commerce Township, Michigan  
5 48382.

6 **Q: On whose behalf are you testifying?**

7 A: I am appearing on behalf of the Public Counsel Unit of the Washington Attorney  
8 General's Office (Public Counsel), who retained me to review Cascade Natural Gas  
9 Corporation's (Cascade or Company) request for an increase in rates.

10 **Q: What is the purpose of your testimony?**

11 A: I present Public Counsel's overall revenue requirement recommendation based on  
12 adjustments presented in this testimony.

13 **Q: Have you prepared a summary of your qualifications and experience?**

14 A: Yes. I have attached Exhibit DMR-9, which is a summary of my regulatory experience  
15 and qualifications.

16 **Q: Have you previously filed testimony before the Washington Utilities and  
17 Transportation Commission (UTC)?**

18 A: Yes. I filed testimony before the UTC in Dockets UE-090205, UE-140762  
19 (*Consolidated*), and UE-152253 involving Pacific Power & Light Company, and Dockets  
20 UE-150204 and UG-150205 (*Consolidated*) involving Avista Corporation.

21 **Q: Have you prepared any exhibits in support of your testimony?**

22 A: Yes. I have prepared Exhibit DMR-2 through DMR-7.

1 Exhibit DMR-2 is a summary of my recommended adjustments to Cascade's  
2 revenue requirements that includes a side-by-side comparison to the adjustments included  
3 in Cascade's filing and to the adjustments contained in Cascade's filing as revised to  
4 reflect the current federal income tax rate of 21 percent. The revenue requirement  
5 difference column, labeled "Rev. Req. Difference," presented in Exhibit DMR-2 shows  
6 the difference between Cascade's original filing revised to reflect the 21 percent federal  
7 income tax rate and Public Counsel's recommended amounts. This comparison more  
8 clearly shows the differences between Cascade's position and Public Counsel's position  
9 based on the actual current federal income tax rate to which Cascade will be subject to.

10 Exhibit DMR-3 presents Public Counsel's recommended revenue requirement as  
11 well as the calculation of the revenue conversion factor. This exhibit compares the  
12 revenue requirements: 1) presented in Cascade's original filing; 2) Cascade's revenue  
13 requirement as revised to reflect the current 21 percent federal income tax rate;<sup>1</sup> and 3)  
14 Public Counsel's recommended revenue requirement based on the adjustments discussed  
15 in this testimony and the current 21 percent federal income tax rate. Also included is a  
16 comparison of what Public Counsel's recommended revenue requirement would be if the  
17 return on equity requested by the Company were reduced from 9.90 percent to 9.40  
18 percent.

19 Exhibit DMR-4 presents a summary of the adjustments. The income tax expense  
20 was revised to reflect the current 21 percent federal income tax rate for each of the per

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<sup>1</sup> The resulting revenue requirement is consistent with the amount calculated by Cascade in its response to Bench Request 1.

1 Company adjustments on Exhibit DMR-4 identified as Restating Adjustments R-1  
2 through R-4 and Pro Forma Adjustments P-1 through P-9.<sup>2</sup>

3 Exhibit DMR-5 presents calculations supporting Public Counsel's recommended  
4 revisions to adjustments sponsored by Cascade in its original filing submitted on  
5 August 31, 2017. Exhibit DMR-6 presents the calculations supporting several of Public  
6 Counsel's recommended adjustments discussed in this testimony, including an  
7 adjustment to restate the unadjusted federal income tax expenses on a Washington  
8 jurisdictional basis to reflect the current federal income tax rate of 21 percent.

9 Exhibit DMR-7 presents estimates of the amount of federal income taxes Cascade  
10 will over-collect as a result of the reduction to the federal income tax rate for the period  
11 January 1, 2018, through the estimated date rates from this case will take effect.

12 **Q: Are you providing any additional exhibits in this proceeding?**

13 A: Yes. Exhibit DMR-8 consists of Company Workpaper MPP WP-1.13 – Pro Forma Wage  
14 Adjustment, as revised to reflect my recommended revisions to Cascade's proposed  
15 adjustment, which is discussed later in this testimony. I am also attaching various data  
16 responses and Company workpapers referenced in this testimony and in Exhibits DMR-4  
17 through DMR-6. These are being provided as Exhibits. DMR-10 through DMR-41.

18 **Q: How is your testimony organized?**

19 A: First, I briefly discuss the Tax Cuts and Jobs Act (TCJA), and its impacts on the  
20 Company's filing and the revenue requirement presentation in this testimony and my  
21 exhibits.

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<sup>2</sup> The amounts shown for the income tax expense associated with each Company adjustment utilizing the current 21 percent federal income tax rate is consistent with the amounts presented by the Company in the attachment provided with the original and supplemental responses to Bench Request 1.





1 **Q: Should the impacts of the TCJA on Cascade’s revenue requirements be reflected in**  
2 **this case?**

3 A: Absolutely. At a minimum, the federal income tax expense included in Cascade’s  
4 revenue requirement and the resulting increase or decrease in current rates ultimately  
5 ordered by the Commission should be determined based on the actual federal income tax  
6 rate in effect during the period new rates from this case take effect. It would be unfair to  
7 ratepayers to set rates based on a 35 percent income tax rate when that rate is no longer in  
8 effect and the current tax rate is 21 percent.

9 **Q: Aside from the amount of federal income tax expense that is included in net**  
10 **operating income, does the TCJA impact other components of the revenue**  
11 **requirement equation?**

12 A: Yes. The TCJA changed numerous provisions of the federal tax law. The TCJA also  
13 impacts the Company’s ADFIT balances and resulting EDFIT. Additional impacts of the  
14 TCJA will be discussed further in the final section of this testimony.

15 **Q: How have you reflected the impacts of the TCJA in your exhibits?**

16 A: With respect to the revenue requirements and adjustments presented in Exhibits DMR-2  
17 through DMR-6, I include federal income tax expense at the actual 21 percent federal  
18 income tax rate. I have not included additional impacts of the TCJA on revenue  
19 requirements beyond the reduction in the FIT rate on federal income tax expense in  
20 Exhibits DMR-2 through DMR-6.

21 **III. SUMMARY OF TESTIMONY**

22 **Q: Based on Public Counsel’s analysis of Cascade’s filing, what is Public Counsel’s**  
23 **recommendation regarding the current level of Washington revenue requirements**  
24 **for Cascade?**

1 A: Cascade's initial filing presented revenue requirement calculations resulting in a  
2 calculated \$5,884,984 increase in revenues. The Company's response to Bench Request  
3 1 demonstrates that reducing the federal income tax rate from 35 percent to 21 percent  
4 results in a revised increase in revenues to \$1,675,608, which reduces Cascade's original  
5 rate increase request by approximately \$4.2 million. Public Counsel's proposed  
6 adjustments presented in this testimony demonstrates that Cascade's current rates should  
7 be reduced by at least \$4,262,276. In other words, current rates, if not reduced, would  
8 result in a revenue sufficiency of at least \$4,262,276. The resulting revenue reduction of  
9 \$4,262,276 is presented on Exhibit DMR-2 and on Exhibit DMR-3, page 1.

10 The revenue sufficiency presented above is based solely on adjustments  
11 recommended by Public Counsel at this time. As demonstrated on Exhibit  
12 DMR-2, Public Counsel is neutral on several of Cascade's proposed restating and pro  
13 forma adjustments. Because a neutral position should not be interpreted as support for a  
14 particular adjustment, Public Counsel reserves the right to modify its position on  
15 Cascade's proposed adjustments for which a position has not yet been taken. Public  
16 Counsel may support or adopt adjustments sponsored by other parties after reviewing  
17 their recommendations.

18 Additionally, the revenue sufficiency presented above does not include the  
19 impacts of the additional adjustments associated with the TCJA discussed at the end of  
20 this testimony. Reflecting additional adjustments associated with the TCJA beyond the  
21 reduction to federal income tax expense caused by the 21 percent FIT rate would further  
22 increase the revenue sufficiency, thereby increasing the amount of reduction to current  
23 rates.

1 **Q: In Exhibit DMR-3, you show Public Counsel’s recommended revenue requirement**  
2 **assuming a fair rate of return calculated with a return on equity of 9.40 percent.**  
3 **Why did you include this additional calculation?**

4 A: The Direct Testimony of Cascade witness J. Stephen Gaske states as follows: “The  
5 settlement agreement that was approved by the Commission in July 2016 included an  
6 authorized return on common equity for Cascade’s Washington natural gas distribution  
7 operations of 9.40 percent.”<sup>4</sup> At this time, Public Counsel has not taken a position on the  
8 appropriate return on equity in this case. However, for informational purposes, I included  
9 an additional column in Exhibit DMR-3 to present what Public Counsel’s calculated  
10 revenue sufficiency would be if based on the current return on equity of 9.40 percent. As  
11 shown in this exhibit, reducing Cascade’s requested return on equity from 9.90 percent to  
12 the current level of 9.40 percent increases the revenue sufficiency for the Company from  
13 \$4,262,276 to \$5,199,506.

14 **IV. RECOMMENDED REVISIONS TO COMPANY ADJUSTMENTS**

15 **Q: Are you recommending any revisions to the various restating and pro forma**  
16 **adjustments proposed by Cascade?**

17 A: Yes. At this time, I recommend that the following pro forma adjustments sponsored by  
18 Cascade be revised:

- 19 • P-1 – Interest Coordination Adjustment;
- 20 • P-2 – Pro Forma Wage Adjustment;
- 21 • P-4 – Rate Case Costs; and
- 22 • P-6 – MAOP Deferral.

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<sup>4</sup> Direct Testimony of J. Stephen Gaske, Exh. JSG-1T at 3:3-5.

1 I also recommend that pro forma adjustment P-3 – Pro Forma Plant Additions be rejected  
2 in its entirety. Each of these revisions are discussed below.

3 Public Counsel witness Carla A. Colamonici recommends several revisions to  
4 Cascade’s pro forma adjustment P-7 – Miscellaneous Charge Changes in her responsive  
5 testimony. The impact of Ms. Colamonici’s recommendation is included in my Exhibit  
6 DMR-2 on line 12 and in Exhibit DMR-4 in the column for Company Adjustment P-7.

7 **A. Interest Coordination Adjustment**

8 **Q: What is the purpose of Company Adjustment P-1 – Interest Coordination**  
9 **Adjustment, which is shown in your Exhibit DMR-4 at page 1?**

10 A: The interest coordination adjustment allows the adjusted rate base and the weighted cost  
11 of debt to coincide with the income tax calculation. Since interest expense is deductible  
12 for income tax purposes, any revisions to the rate base or the weighted cost of debt will  
13 impact test year income tax expense. The reduction to the federal income tax rate also  
14 impacts this adjustment. The adjusted test year rate base I am recommending differs  
15 from the Company proposed rate base. Thus, the resulting interest expense deduction for  
16 determining the test year income tax expense will differ from the interest expense  
17 deduction used by Cascade in its original filing.

18 Adjustment P-1 – Interest Coordination Adjustment, shown on Exhibit DMR-5 at  
19 page 1, presents the calculation of the interest deduction and resulting impact on test year  
20 income tax expense based on: 1) the Company’s as-filed amounts; 2) the Company’s  
21 revised amounts based on impacts of the 21 percent FIT rate resulting from the TCJA;  
22 and 3) Public Counsel’s recommended position in this case. As shown on Exhibit DMR-  
23 5, page 1, the Interest Coordination Adjustment in the Company’s original filing, based  
24 on the 35 percent federal income tax rate, increased the per books income tax expense by

1           \$274,827. Based on Public Counsel's recommended rate base and the 21 percent federal  
2           income tax rate, Public Counsel's Interest Coordination Adjustment increases the per  
3           book federal income tax expense, as adjusted to reflect the 21 percent FIT rate, by  
4           \$263,991.

5           **B. Pro Forma Wage Adjustment**

6           **Q: Can you please briefly describe Cascade's pro forma wage adjustment, pro forma**  
7           **Adjustment P-2?**

8           A: Yes. In his direct testimony,<sup>5</sup> Cascade witness Michael P. Parvinen explains that the pro  
9           forma wage adjustment has four separate components. The four components accomplish  
10          the following:

- 11          • Annualizes the April 1, 2016, union employee wage increase;
- 12          • Includes actual 2017 wage increases for union and non-union employees;
- 13          • Includes estimated 2018 wage increases for union and non-union employees; and
- 14          • Includes actual and estimated 2017 and 2018 wage increases for affiliated employees  
15          whose costs are allocated to Cascade instead of directly assigned.

16          On a combined basis, these four separate components of the wage increase adjustment  
17          increases test year O&M expenses by \$1,354,914 and test year payroll tax expenses by  
18          \$82,922.

19          **Q: Are you aware of any Commission guidance regarding the inclusion of post-test year**  
20          **or pro forma salary and wage increases?**

21          A: Yes. I am aware of several Commission orders addressing the criteria for inclusion of  
22          post-test year wage increases. In Docket UE-140762 (*Consolidated*), the Commission  
23          addressed test year labor costs, including employee levels and wage increases, as follows:

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<sup>5</sup> Direct Testimony of Michael P. Parvinen, Exh. MPP-1T at 2:12-26.  
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1 As Pacific Power is fully aware, Washington uses a hybrid test year  
2 approach that allows pro forma adjustments only for known and  
3 measurable changes –not budgeted or projected changes– that occur,  
4 generally within a reasonable time after the end of the test year and, with  
5 some exceptions, almost never more than 12 months after the end of the  
6 test year.<sup>6</sup>  
7

8 In a footnote to the above quoted section, the Commission also stated:

9 We note that it is even exceptional for the Commission to allow pro forma  
10 adjustments beyond a few months after the end of the test year. The  
11 Commission has relaxed this careful approach somewhat during recent  
12 years, risking violation of the matching principle, in an effort to address  
13 concerns that regulatory lag has been increasingly problematic during a  
14 period of unusually high capital investment. The Commission also has  
15 used other approaches, such as use of EOP rate base instead of the  
16 preferred AMA approach, and allowance of attrition adjustments, to  
17 address this problem. Nevertheless, companies we regulate continue to  
18 file regularly for general rate increases. Pacific Power, for example, has  
19 filed one general rate case after another, year after year, as exemplified by  
20 its filing of this case only five months after the Commission authorized  
21 rate increases in Docket UE-130043 in 2013.<sup>7</sup>

22 Additionally, it is my understanding that in a 2009 Puget Sound Energy (PSE) general  
23 rate proceeding (Dockets UE-090704 and UG-090705), PSE proposed to include several  
24 post-test year wage increases. In Order 11, the Commission stated:

25 Although outside the test period, we allow the IBEW April 2009  
26 contractual increase, which does not appear to be in dispute, because it is  
27 close enough in time to the end of the test year to limit our concerns about  
28 possible offsets. We agree with Public Counsel that the other changes  
29 (IBEW and UA in October 2009 and October 2010, and non-union in  
30 March 2010) are too remote from the end of the test year to be included  
31 without risk of violating the matching principle.<sup>8</sup>

32 More recently in an Avista general rate case based on a test year ended September 30,  
33 2014, the Commission stated as follows:

34 In the past, we have allowed only limited adjustments to labor expenses  
35 beyond the test period when those adjustments are known and measurable.  
36 We agree with Staff that the 2014 wage increases and 2015 union wage

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<sup>6</sup> *WUTC v. PacifiCorp*, Docket UE-140762, Order 08 ¶ 44 (Mar. 25, 2015).

<sup>7</sup> *Id.* at 21, n.57.

<sup>8</sup> *WUTC v. Puget Sound Energy*, Dockets UE-090704 and UG-090705, Order 11 ¶ 88 (Apr. 2, 2010).

1 increases should be included in rates, but we reject the 2015 non-union  
2 increase and 2016 increases because those increases are not yet known and  
3 measurable.<sup>9</sup>

4 Customarily, the Commission has only allowed limited adjustments to historic test years  
5 to reflect salary and wage increases, and only when the wage increases are known and  
6 measurable. The Commission has also indicated that inclusions of wage increases that  
7 are too remote from the test year runs the risk of violating the matching principle. I  
8 recommend that the Commission continue this practice in the current case to both avoid  
9 violating the matching principle and to exclude amounts that are not known or  
10 measurable.

11 **Q: Are the salary and wage increases proposed by Cascade known and measurable,**  
12 **and not too far remote from the end of the test year?**

13 A: I agree that the Company's annualization of the actual wage increases granted during the  
14 test year is reasonable and appropriate. I also agree that the union wage increase of 3.10  
15 percent included for 2017 is known and measurable and should be included in the pro  
16 forma adjustment. However, I do not agree that the non-union wage increases for 2017  
17 and 2018 and the union wage increase for 2018 should be included.

18 **Q: Why do you disagree with the inclusion of the 2018 union wage increase in the pro**  
19 **forma wage adjustment?**

20 A: In his direct testimony,<sup>10</sup> Mr. Parvinen indicated that the union contract was under  
21 negotiation so an estimated increase was included for 2018. In response to Public  
22 Counsel Data Request 39, provided as Exhibit DMR-10 (attachment excluded), the  
23 Company indicated that the current agreement between the Company and Local No. 121-  
24 C of the International Chemical Workers' Union Council/UFCW is effective through

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<sup>9</sup> *WUTC v. Avista Corp*, Dockets UE-150204 & UG-150205, Order 05 ¶ 206 (Jan. 6, 2016).

<sup>10</sup> Parvinen, Exh. MPP-1T at 5:20-22.



1 March 31, 2018, and that a new contract will be bargained in early 2018. Thus, the 2018  
2 union wage increase is not yet known or measurable. Additionally, the 2018 union wage  
3 increase, once known, will occur more than 12 months beyond the end of the test year  
4 making it too remote from the test year.

5 **Q: Since the 2017 non-union wage increases would have already been granted, why do**  
6 **you recommend to exclude the Company's proposed 2017 non-union wage increase**  
7 **from the pro forma wage adjustment?**

8 A: Mr. Parvinen indicates that the Company's adjustment includes "the 2017 actual wage  
9 increases for non-union and union employees."<sup>11</sup> Mr. Parvinen's workpaper MPP  
10 WP-1.13<sup>12</sup> for the pro forma wage adjustment shows that he included a 3.80 percent  
11 increase for financial services personnel and a 4.0 percent increase for the remaining non-  
12 union positions for 2017. While he indicates that the 2017 wage increases included in his  
13 adjustment are "known and measurable," the support provided by the Company for this  
14 "known and measurable" increase does not support the 3.80 percent and 4.0 percent non-  
15 union increases incorporated in his adjustment for 2017.

16 **Q: What evidence did the Company provide in support of the "known and**  
17 **measurable" 2017 non-union wage increases?**

18 A: UTC Staff Data Request 43(a)<sup>13</sup> asked for "All workpapers supporting the proposed wage  
19 adjustment." In response, the Company provided a confidential attachment containing  
20 CNG Salary Changes for 2016 and 2017, by employee. While the information provided  
21 in the confidential attachment demonstrated that the 2017 union wage increase included  
22 in the Company's filing was the actual known and measurable amount granted to the

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<sup>11</sup> Parvinen, Exh. MPP-1T at 5:14-15.

<sup>12</sup> Workpaper provided as Exhibit DMR-11.

<sup>13</sup> Cascade response to UTC Data Request 43 provided as Exhibit DMR-12 (confidential attachments excluded).

1 union employees in 2017, it did not support the 3.80 percent and 4.0 percent increases  
2 included in the Company's adjustment for 2017 wage increases for non-union employees.  
3 The Company has not provided clear evidence demonstrating that, on an overall basis,  
4 the non-union wages actually increased by 3.80 percent and 4.0 percent in 2017 as  
5 compared to the 2016 test year. Thus, the adjustment has not been demonstrated to be  
6 based on actual known and measurable amounts. This is true for both the Cascade  
7 non-union employees and for the affiliate employees whose costs were allocated to  
8 Cascade during the test year.

9 **Q: What revisions should be made to the Company's pro forma wage adjustment?**

10 A: The Company's adjustment should be revised to only reflect the annualization of the  
11 actual 2016 test year union wage increases and the 2017 actual known and measurable  
12 union wage increases. The 2017 wage increases for the non-union employees should be  
13 excluded as unsupported and not known and measurable. The 2018 wage increases for  
14 both the non-union and union employees should also be excluded as the amounts are not  
15 known and measurable and are too remote from the test year.

16 **Q: What adjustment should be made to reflect these recommendations?**

17 A: Using the Company's electronic workpapers supporting its filing, which were provided  
18 with formulas and links intact in response to UTC Staff Data Request 3, specifically for  
19 workpaper MPP WP-1.13 for the Pro Forma Wage Adjustment, I removed the non-union  
20 wage increase percentages for 2017 and 2018 and removed the union wage percentage  
21 increase for 2018. The modified version of the Company's workpaper is provided as  
22 Exhibit DMR-8. Below is a side-by-side comparison of the Company's proposed pro  
23 forma adjustment and the pro forma adjustment that results from the above-described  
24 revisions to the Company's workpaper:

	Adjustment Per Company	Adjustment per Public Counsel	Difference
Production Expense	16,166	-	(16,166)
Distribution Expense	801,025	329,270	(471,755)
Customer Accounts	87,065	18,036	(69,029)
Administrative & General	450,658	1,102	(449,556)
Total O&M Expense	1,354,914	348,408	(1,006,506)
Payroll Tax Expense	82,922	26,653	(56,269)
Total Operating Expenses	<u>1,437,836</u>	<u>375,061</u>	<u>(1,062,775)</u>

1  
2 On Exhibit DMR-4, page 1, I replaced the Company’s Pro Forma Wage Adjustment,  
3 Adjustment P-2, with the amounts reflected in the “Adjustment per Public Counsel”  
4 column in the above table. This reduces the Company’s adjusted test year operating  
5 expenses by \$1,062,775, as reflected in the above table.

6 **C. Pro Forma Plant Additions**

7 **Q: Cascade’s filing includes an adjustment for Pro Forma Plant Additions, Adjustment**  
8 **P-3. How has the Company described this pro forma adjustment?**

9 A: In her direct testimony, Cascade witness Nicole A. Kivisto indicates that the Company’s  
10 2017 capital budget for the Washington jurisdiction includes over \$47 million of planned  
11 investments.<sup>14</sup> Of the \$47 million, \$11 million is associated with replacement of high  
12 risk pipeline that is included in the annual pipeline Cost Recovery Mechanism (CRM),  
13 \$15 million is “revenue producing investment,” and \$3 million will either not be used and  
14 useful in time for inclusion in this case or have other offsetting factors. As a result,  
15 Cascade is seeking to include in this case approximately \$18 million (\$47M - \$11M -  
16 \$15M - \$3M) of its 2017 budgeted capital expenditures in rate base.

17 Company witness Mr. Parvinen indicates that Cascade’s proposed adjustment  
18 “reflects the Company’s budgeted level of capital additions expected to go into service by

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<sup>14</sup> Direct Testimony of Nicole A. Kivisto, Exh. NAK-1T at 4:11-5:2.  
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1 December 31, 2017...” and is limited to projects “that are non-revenue producing and  
2 will not be included in the 2017 annual Cost Recovery Mechanism (CRM).”<sup>15</sup>

3 **Q: What impact does the Company’s pro forma adjustment for the post-test year plant**  
4 **additions have on its request?**

5 A: As shown on my Exhibit DMR-2, line 8, the Company’s pro forma adjustment P-3 for  
6 the Pro Forma Plant Additions increases revenue requirements by \$2,630,493 if the 35  
7 percent federal income tax rate is considered and by \$2,244,229 based on the current 21  
8 percent federal income tax rate. The Company’s adjustment increases rate base by  
9 \$17,820,193. The rate base amount includes impacts of the estimated post-test year plant  
10 additions on plant in service, accumulated depreciation, and accumulated deferred  
11 income taxes.

12 **Q: How many projects did the Company include in its requested pro forma plant**  
13 **addition adjustment?**

14 A: Exhibit DMR-5, at pages 2 and 3, lists all of the separate projects Cascade has included in  
15 its request. These pages were prepared from the information contained in Mr. Parvinen’s  
16 Exhibit MPP-6 and includes only the projects on Mr. Parvinen’s exhibit that are included  
17 in the Company’s proposed pro forma adjustment. While my Exhibit DMR-5, pages 2  
18 and 3, lists 59 separate project numbers, the Company’s request includes more than 59  
19 separate individual projects. At least nine of the 59 projects listed are blanket type  
20 workorders that would include numerous separate smaller projects.<sup>16</sup>

21 In addition to approximately \$18 million of Cascade’s budgeted capital  
22 expenditures disclosed in Ms. Kivisto’s testimony discussed above, the Cascade request

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<sup>15</sup> Parvinen, Exh. MPP-1T at 6:1-5.

<sup>16</sup> Cascade’s comments provided in its attachment to the response to Public Counsel Data Request 45, provided as Exhibit DMR-13, indicates that “Blanket funding projects are used for the numerous small work orders that arise on a day to day basis.”

1 also includes \$897,939 of project costs budgeted for allocation to Cascade’s Washington  
2 jurisdiction from either Cascade’s parent company and/or affiliated entities. Based on  
3 Cascade’s response to Public Counsel Data Request 51, provided as Exhibit DMR-14, all  
4 nine of the Intangible Plant projects listed on Exhibit DMR-5, page 2, are for projects  
5 implemented by either Cascade’s parent company or an affiliated entity, with the  
6 “Amount per Company” being based on Cascade’s allocated portion of the projected  
7 costs.

8 **Q: Since the amounts included in the Company’s pro forma plant additions adjustment**  
9 **are based on budgeted amounts, does Cascade intend to update its adjustment with**  
10 **actual amounts?**

11 A: Yes. Mr. Parvinen’s direct testimony indicates that “Cascade will update the actual costs  
12 and standing of each project as the case proceeds.”<sup>17</sup> He also states: “[t]he intent is  
13 adding into rate base only those projects that will be used and useful by the time rates  
14 from the current proceeding go into effect.” As of the present date, the Company has not  
15 provided this planned update. In response to Public Counsel Data Request 45, provided  
16 as Exhibit DMR-13, the Company provided actual amounts placed into service for some  
17 of the projects included in its request. However, for many of the projects, information  
18 was not provided on a comparable basis to Mr. Parvinen’s Exhibit MPP-6 as the response  
19 included amounts that had already been placed into service for many of the projects  
20 during the 2016 test year and prior. As of the date this testimony was prepared, I am not  
21 aware of Cascade revising its pro forma plant addition adjustment based on the actual  
22 known and measurable amounts placed into service subsequent to the test year.

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<sup>17</sup> Parvinen, Exh. MPP-1T at 6:9-13.

1 **Q: For the numerous projected post-test year plant additions the Company requests for**  
2 **inclusion, are any of the projects what you would consider to be “major” plant**  
3 **additions?**

4 A: Of the over 59 projects included in the Company’s adjustment, there is only one project  
5 that I would consider a major plant addition. This is for the project titled “FP-315607 –  
6 RF; 6” Steel HP Main, Kennewick/Rich,” hereinafter referred to as the  
7 “Kennewick/Richland Project,” with an estimated project cost included in Cascade’s filing  
8 of \$4,929,288. Of the 59 projects (inclusive of blanket projects) listed on Exhibit DMR-  
9 5, pages 2 and 3, only nine projects included projected costs of over \$500,000, and three  
10 of the nine are for blanket projects that consist of numerous smaller projects. There are  
11 25 projects with estimated costs of less than \$100,000. Of the 59 projects, only four  
12 included projected costs that would be over \$1 million on a Washington jurisdictional  
13 basis, one of which was a blanket project made up of numerous smaller projects. The  
14 non-blanket projects with estimated costs of over \$1 million on a Washington  
15 jurisdictional basis are shown in the table below:

Project	Projected Amount
FP-302588 - HILDEBRAND BLVD 6" HP MAIN	1,524,374.00
FP-314964 - MAOP RPL 8" MARCH POINT - 11C1144-1	1,042,031.63
FP-315607 - RF; 6" STEEL HP MAIN, KENNEWICK/RICH	4,929,287.84

16  
17 To put these amounts into perspective, the actual test year total plant in service on an  
18 average of monthly average (AMA) basis was \$677,314,165 and total rate base was  
19 \$280,062,051.<sup>18</sup> The \$1,524,374 for the Hildebrand Blvd. 6” high-pressure main project  
20 is only 0.23 percent of test year plant in service and 0.54 percent of test year rate base.

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<sup>18</sup> Parvinen, Exh. MPP-2.

1 For Project “FP-314964 – MAOP RPL 8” March Point – 11C1144-1,” shown in  
2 the above table with a projected cost of \$1,042,032, the project description in Company  
3 Exhibit MPP-6 at page 6, under note 34, indicated in part that the project was broken out  
4 into two phases and the first phase is dependent on receiving permitting to allow the  
5 completion of Phase 1 by the end of 2018. In response to Public Counsel Data Request  
6 61, provided as Exhibit DMR-15, the Company indicated that the permits have not yet  
7 been approved for the first phase and have not been submitted yet for the second phase.  
8 The response also indicates that the project will not be completed in 2017. Thus, out of  
9 the non-blanket projects over \$1 million, apparently only two may have been placed into  
10 service during 2017.

11 **Q: Is it Cascade’s position that its inclusion of over 59 post-test year capital projects is**  
12 **consistent with Commission precedent and guidelines regarding inclusion of post-**  
13 **test year plant additions?**

14 A: In his direct testimony, Mr. Parvinen asserts that Cascade’s proposed pro forma capital  
15 additions are consistent with the Commission’s guidelines set for in Docket UE-  
16 140762.<sup>19</sup> He quoted the Commission’s statement in Docket UE-140762 stating that it is  
17 the Commission’s “long-standing practice to consider post-test-year capital additions on a  
18 case-by-case basis following the used and useful and known and measurable standards  
19 while exercising the considerable discretion these standards allow in the context of  
20 individual cases.”<sup>20</sup> Mr. Parvinen’s testimony, at page 7, also included the following  
21 quotation from the same Commission Order:

22 The known and measurable test requires that an event that causes a change  
23 in revenue, expense or rate base must be known to have occurred during,

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<sup>19</sup> Parvinen, Exh. MPP-1T at 6:20 – 7:19.

<sup>20</sup> Parvinen, Exh. MPP-1T at 6:22 - 7:1 (quoting *WUTC v. PacifiCorp*, Docket UE-140762 (*Consolidated*), Order 08 ¶ 165 (Mar. 25, 2015)).

1 or reasonably soon after, the historical 12 months of actual results of  
2 operations, and the effect of that event will be in place during the 12-  
3 month period when rates will likely be in effect. Furthermore, the actual  
4 amount of the change must be measurable. This means that the amount  
5 typically cannot be an estimate, a projection, the product of a budget  
6 forecast, or some similar exercise of judgment – even informed judgment  
7 – concerning future revenue, expense or rate base.<sup>21</sup>

8 Mr. Parvinen asserts that Cascade’s proposed pro forma adjustment for the post-test year  
9 plant additions meets the Commission’s above quoted criteria as the projects will be in  
10 service and used and useful during the suspension period for this case, and the costs will  
11 become known and measurable. He indicates that Cascade “expects to be able to provide  
12 actual costs for all projects in its rebuttal filing.”

13 **Q: Do you share Mr. Parvinen’s opinion that the post-test year plant additions Cascade**  
14 **seeks to include in this case meet the guidelines set forth by the Commission in**  
15 **Docket UE-140762?**

16 A: Absolutely not. I testified in Docket UE-140762 on behalf of Public Counsel. In my pre-  
17 filed direct testimony, I addressed Pacific Power & Light Company’s (Pacific Power)  
18 proposed post-test year plant additions. In that case, Pacific Power proposed a pro forma  
19 adjustment to include all post-test year plant additions exceeding \$250,000 on a  
20 Washington jurisdictional basis that it anticipated placing into service with 15 months  
21 after the historic test year. This included 30 capital projects.

22 In my pre-filed direct testimony, filed in Docket UE-140762, I stated:

23 As a means of addressing the potential regulatory lag issues, and as  
24 hopefully a means of putting downward pressure on the frequency of rate  
25 cases filed by Pacific Power in Washington, Public Counsel is agreeable to

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<sup>21</sup> *WUTC v. PacifiCorp*, Docket UE-140762 (*Consolidated*), Order 08 ¶ 167 (Mar. 25, 2015). The above paragraph was a quotation within the Commission Order with the following citation: Docket UE-130043, Order 05 ¶ 205 (Dec. 4, 2013) (quoting *WUTC v. PSE*, Dockets UE-090704 and UG-090705, Order 11 ¶ 26 (Apr. 2, 2010)).



1 allowing the inclusion in rate base of the pro forma major plant additions  
2 proposed by Pacific Power that have actually been placed into service.<sup>22</sup>

3 I also indicated that the amounts allowed should be based on the actual known  
4 and measurable amounts placed into service. At page 16 of my pre-filed direct  
5 testimony, I also stated: “While Public Counsel is agreeing to allow some of the actual  
6 known and measurable post-test year major additions in this case as a regulatory lag and  
7 rate case frequency mitigation measure, such allowances should be limited to avoid  
8 further mismatch of the components of the revenue requirement equation.” In that case, I  
9 proposed in revised testimony dated December 1, 2014, that 13 projects actually placed  
10 into service by Pacific Power by August 31, 2014, which was eight months after the end  
11 of the test year, be allowed for inclusion in rate base based on the actual known and  
12 measurable amounts as an exception in order to address potential regulatory lag issues  
13 and put downward pressure on the frequency of rate cases filed by Pacific Power. UTC  
14 Staff supported the inclusion in rates of the post-test year plant additions that were in  
15 service at the time Pacific Power filed its rebuttal testimony, as updated to be based on  
16 actual costs.

17 In its order, issued March 25, 2015, the Commission disagreed with my  
18 recommendation and Staff’s recommendation, allowing only four of Pacific Power’s  
19 proposed post-test year projects to be included.<sup>23</sup>

20 **Q: What is your understanding of the why Commission allowed only four of Pacific**  
21 **Power’s proposed post-test year projects to be included?**

22 A: Paragraph 169 of the order stated, in part:

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<sup>22</sup> *WUTC v. PacifiCorp*, Docket UE-140762 (*Consolidated*), Direct Testimony of Donna M. Ramas at 15:7-11 (Oct. 10, 2014).

<sup>23</sup> *WUTC v. PacifiCorp*, Docket UE-140762 (*Consolidated*), Order 08 (Mar. 25, 2015).

1 The record in this case demonstrates why the Commission requires a  
2 more rigorous record and increasingly concrete support for *pro forma*  
3 adjustments the later in time plant additions are put in service and  
4 claimed to be used and useful. In this case the Company presents scant  
5 data concerning most of its proposed post-test period adjustments and  
6 the quality of its data has been shown to be poor and subject to  
7 revisions. Both cost and in-service date data presented in the original  
8 filing proved to be quite inaccurate for some projects. In addition,  
9 neither Staff nor Public Counsel present any evidence that they actually  
10 audited the data presented at any point in time. While Public Counsel's  
11 analyses during the case uncovered numerous errors in the data the  
12 Company presented the analysis was not an audit-level review. The  
13 Company's evidence and other parties' review falls far short of what  
14 we require to determine whether a proposed plant addition is used and  
15 useful and that its costs are known and measurable.<sup>24</sup>

16 In this case, the support and descriptions provided by Cascade for the numerous budgeted  
17 projects it proposes to include is likewise scant. The full descriptions of the projects were  
18 provided in Company Exhibit MPP-6, pages 4 to 7, consisting of brief descriptions of  
19 each of the proposed projects. Similarly, the amounts are not based on known and  
20 measurable amounts that have been demonstrated to have been placed into service.

21 Additionally, paragraph 170 of the same Commission order relied upon by  
22 Cascade in this case stated as follows:

23 We also note that the relative size of many of the Company's proposed  
24 plant additions in this case falls short of any reasonable definition of  
25 "major" and there is no discussion in the record concerning possibly  
26 offsetting factors that may have occurred coincident with any of the  
27 plant going into service. In other words, neither the Company, nor any  
28 of the parties, appear to have taken into serious consideration the  
29 requirement to consider the matching principle for such capital  
30 additions.<sup>25</sup>

31 As discussed previously in this testimony, the projects Cascade proposes to include as  
32 post-test year plant additions in this case fall far short of being considered "major," with  
33 the exception of possibly one of over 59 proposed projects. In its order in Docket UE-

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<sup>24</sup> *WUTC v. PacifiCorp*, Docket UE-140762, Order 08 ¶ 165 (Mar. 25, 2015).

<sup>25</sup> *Id.* ¶ 170.

1 140762, the Commission found that 25 of the 30 projects proposed by Pacific Power  
2 were relatively small projects that were insufficiently supported by the evidence in the  
3 case. It allowed the inclusion of only four major projects based on the known and  
4 measurable amounts that were actually placed in to service.

5 **Q: The above quote from the Commission's order in Docket UE-140762, paragraph**  
6 **170, indicated that parties appeared to have not taken the matching principle**  
7 **associated with capital additions into consideration. Is the use of a consistent test**  
8 **year important for determining the amount of revenues needed by a regulated**  
9 **utility such as Cascade?**

10 A: Absolutely. Use of a consistent 12-month test period, or test year, should result in  
11 consistent matching between investment, revenues, and costs. It is important that these  
12 three primary elements of the revenue requirement equation be matched to insure that the  
13 revenue requirements are not distorted. For example, if plant is added to serve additional  
14 customers, then revenues and expenses are both impacted by the addition of the new  
15 plant. Additional revenues will result from the new customers the plant is being built to  
16 serve and additional expenses may result as part of the operation of the plant.

17 As another example, if plant is added to replace older plant, costs may decline as  
18 a result of lower maintenance expenses on the new plant or efficiencies inherent in the  
19 newer plant. Additionally, as new plant is added, older plant may be retired. It is  
20 important in reviewing adjustments to an historic test period to ensure that such  
21 adjustments do not distort the relationship of investments, revenues and expenses.

22 **Q: Is it your opinion that the Company's pro forma adjustment to include well over 59**  
23 **separate budgeted post-test year projects would distort the relationship of**  
24 **investments, revenues and expenses?**

1 A: Yes. The Company has added a significant portion of its budgeted 2017 capital  
2 expenditures as a pro forma adjustment in this case. Adding well over 59 separate post-  
3 test year plant additions, the vast majority of which could not reasonably be considered  
4 “major” plant additions, would violate the matching principle and distort the relationship  
5 between investments, revenues, and expenses.

6 **Q: What is your recommendation regarding the Company’s proposed pro forma plant**  
7 **additions adjustment?**

8 A: I recommend that the Company’s adjustment be rejected in its entirety. As shown on  
9 Exhibit DMR-4, at page 1, under the column for Company Adjustment P-3 – Pro Forma  
10 Plant Additions, I replaced the Company’s proposed amounts with \$0 values.

11 **Q: Why do you recommend that the Company’s adjustment be rejected in its entirety?**

12 A: There are many reasons I recommend the Company’s adjustment be rejected outright.  
13 Cascade’s proposed adjustment would result in a violation of the matching principles  
14 distorting the relationship between the test year investments, revenues and expenses.  
15 Additionally, the adjustment is not based on known and measurable amounts. Cascade  
16 also has not demonstrated that the projects are actually in service and used and useful in  
17 providing service to its Washington ratepayers. To date, the Company has not provided  
18 or reasonably supported known and measurable amounts, nor the used and usefulness of  
19 the projects. Indeed, very little discussion or description of the post-test year plant  
20 additions was provided in Cascade’s filing.

21 If any post-test year plant additions are allowed, they should be limited to large or  
22 “major” projects that are based on known and measurable amounts that are in service,  
23 used and useful, and do not violate the matching principle. By limiting allowed projects  
24 to major projects, greater care can be taken to ensure that including a project does not

1 violate the matching principle and that all impacts of the project on the revenue  
2 requirements are taken into consideration and synchronized in the adjusted test year.

3 Additionally, when comparing Cascade's response to Public Counsel Data  
4 Request 45 (provided as Exhibit DMR-13) to Cascade's Exhibit MPP-6, the amounts  
5 actually placed into service for many of the projects as reflected in the response differ  
6 from the amounts proposed in the Company's filing. As one example of a variance,  
7 Cascade included \$152,137 in its pro forma plant additions for Project FP-306999 – V-13  
8 Bremerton Replacement, and the actual cost was only \$15,215. The response to Public  
9 Counsel Data Request 102<sup>26</sup> indicates that the Company estimated using contractor labor  
10 with difficult construction conditions, and the project was completed with district  
11 personnel under favorable conditions.

12 Another concern is that several of the projects included in the Company's  
13 adjustment were actually placed into service at the end of 2016, but were not booked in  
14 the plant in service accounts until 2017. Cascade explains that several of the projects in  
15 its pro forma plant addition adjustment were placed into service at the end of 2016 but  
16 not booked to plant in service until 2017 in its responses to Public Counsel Data Requests  
17 99 and 100, provided as Exhibits DMR-17 and DMR-18, respectively. The effect of this  
18 is to distort the test year. If the projects had been booked to plant in service when placed  
19 into service at the end of December 2016, approximately 1/13<sup>th</sup> of the project cost would  
20 be included in rate base under the AMA method. However, by including the projects in  
21 the post-test year plant additions, rate base would instead include 100 percent of the  
22 projects costs, causing distortion to the test year.

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<sup>26</sup> Cascade's Response to Public Counsel Data Request 102 provided as Exhibit DMR-16.  
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1           Furthermore, several of the projects included in the Company's pro forma  
2 adjustment have either been cancelled or delayed. In response to Public Counsel Data  
3 Request 50, provided as Exhibit DMR-19, the Company responded that two of the  
4 projects included in Exhibit MPP-6 were mislabeled and would not be in service in 2017.  
5 As a result, the two projects would be eliminated from Cascade's pro forma plant  
6 adjustment. The two projects are shown on lines 8 and 9 of Exhibit DMR-5, page 2.

7           The Company's response to Public Counsel Data Request 61, provided as Exhibit  
8 DMR-15, indicates that a needed permit has not yet been received and the projects will  
9 not be completed during 2017. This response was discussed previously regarding one of  
10 the proposed plant additions that was estimated to exceed \$1 million. The projects shown  
11 on Exhibit DMR-5, page 3, lines 36 and 37, have been delayed.

12 **Q: You previously indicated that there was only one project you would consider to be a**  
13 **major plant addition, specifically the Kennewick/Richland Project, with an**  
14 **estimated project cost included in the filing of \$4,929,288. What is your**  
15 **understanding of this project?**

16 A: The "Explanation and Support" for this project provided in Company Exhibit MPP-6 at  
17 page 5, under Note 14, states: "The reinforcement addresses the lack of adequate  
18 distribution capacity to serve core customers in downtown Richland as the company  
19 experienced very low pressure conditions in Richland during extreme cold weather in  
20 early January 2017. This reinforcement will also accommodate additional load requested  
21 by Lamb Weston." The Company's workpaper for the pro forma plant additions  
22 adjustment, specifically Mr. Parvinen's workpaper MPP WP-1.14,<sup>27</sup> shows that the  
23 Company is including \$199,944 of incremental gas transportation revenues associated

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<sup>27</sup> Company Workpaper MPP WP-1.14 provided as Exhibit DMR-20.  
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1 with this project as part of its pro forma plant addition adjustment, based on projected  
2 incremental volumes per year of 6,500,000 therms.

3 The Company's Executive Summary for the project provided in response to UTC  
4 Staff Data Request 65<sup>28</sup> provided the following explanation under "Project  
5 details/background":

6 The project consists of the installation of a High Pressure Reinforcement  
7 of Cascade's Distribution System through the Cities of Kennewick and  
8 Richland, WA to provide additional capacity to serve \$240 million potato  
9 processing facility in north Richland. The proposal also includes the  
10 installation of an intermediate pressure distribution main, regulator station  
11 and service line at the site of the new production facility.

12 The proposed Reinforcement will increase the distribution capacity in the  
13 north Richland area by an additional 500 Mfch based on Engineering's  
14 flow study calculations. Lamb Weston has requested 100 Mcfh for their  
15 new production facility. Under the attached backbone industrial capacity  
16 additional guidelines, Lamb Weston will be responsible for 20% of the  
17 incremental capacity cost and Cascade will be responsible for the  
18 remaining 80% of the cost.

19 Completion of this Reinforcement will allow Cascade to pursue growth  
20 opportunities in the nearby Horn Rapids Industrial Park where Cascade  
21 has longstanding requests to provide natural gas service to unserved  
22 industrial customers. This reinforcement also addresses Cascade's lack of  
23 adequate distribution capacity to serve core customers in downtown  
24 Richland as the company experienced very low pressure conditions in  
25 Richland during the extreme cold weather experienced in early January.

26 Thus, while the project will address capacity issues for customers in downtown Richland,  
27 it will also significantly increase the distribution capacity allowing the Company to serve  
28 Lamb Weston, for which estimated revenues were included in the filing, and allow the  
29 Company to pursue growth opportunities in an area with longstanding requests for  
30 service for which the additional revenues are not included in the Company's filing.

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<sup>28</sup> The Executive Summary for the project provided on the compact disc (CD) with the response to UTC Staff Data Request 65, specifically the file titled "Executive Summary FP 315607" is provided as Exhibit DMR-22.

1 **Q: Please explain why you are not recommending that this project be included in rate**  
2 **base as a pro forma plant addition.**

3 A: Major post-test year plant additions should be limited to those projects that are not  
4 revenue producing or expense reducing to avoid distorting the matching of investments,  
5 revenue, and expenses. While the Company has included some projected revenue  
6 associated with the project, it is clear from the Executive Summary that the project will  
7 allow the Company to pursue other growth opportunities in an area with longstanding  
8 requests for service. It is my opinion that this growth-related project should not be  
9 included as a pro forma post-test year plant addition in this case.

10 **D. Rate Case Costs**

11 **Q: Can you please describe Company Pro Forma Adjustment P-4, titled “Rate Case**  
12 **Costs?”**

13 A: Yes. In his direct testimony, Cascade witness Mr. Parvinen explains that the adjustment  
14 “reflects the impacts of incremental costs associated with filing this general rate case over  
15 what was booked in 2016 for the last general rate case, Docket No. UG-152286.”<sup>29</sup> He  
16 also indicates that the costs will be updated “as they become known and better  
17 estimated.” Company workpaper MPP WP-1.15 for the Pro Forma Rate Case Costs  
18 adjustment, provided as Exhibit DMR-24, shows that the Company combined the actual  
19 rate case costs recorded during the test year of \$109,633 and added its estimated 2017  
20 rate case costs of \$298,512, resulting in a combined total of \$408,145. The Company’s  
21 pro forma adjustment increases the \$109,633 in rate case costs recorded during the test  
22 year by \$298,512, resulting in adjusted rate case expense of \$408,145. In response to

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<sup>29</sup> Parvinen, Exh. MPP-1T at 8:3-5.



1 Public Counsel Data Request 67,<sup>30</sup> the Company indicated that the \$109,633 recorded  
2 during the test year was for the prior rate case, Docket UG-152286. Thus, the  
3 Company's adjustment includes costs covering a two-year period, 2016 and 2017, and  
4 includes a portion of the costs associated with the prior rate case as well as the current  
5 rate case.

6 **Q: Did Cascade explain why it adjusted the test year expenses to include costs incurred**  
7 **during the test year associated with the prior general rate case and the projected**  
8 **costs associated with the current rate case proceeding?**

9 A: Yes. Public Counsel Data Request 67 asked the Company to explain why it is reflecting  
10 the total amount of actual and projected rate case costs in the adjusted test year instead of  
11 amortizing the costs. The Cascade responded as follows:

12 Cascade filed its last rate case using the twelve months ended 6/30/2015  
13 and its current filing based on the twelve months ended 12/31/2016.  
14 Cascade anticipates that it will be filing another rate case shortly after the  
15 completion of this docket. Cascade anticipates that no rate case cost  
16 adjustment will be necessary in the next case because the test year for that  
17 case will contain a full rate case amount. Cascade anticipates, based on  
18 projected capital spending requirements over the foreseeable future, filing  
19 annual rate cases so a reasonable amortization would be one year.

20 **Q: Do you agree that it is reasonable to include the full costs associated with this rate**  
21 **case in adjusted test year expenses?**

22 A: No, I do not. There is no compelling evidence indicating that the annual recurring level  
23 of rate case costs for Cascade will be the \$408,145 it proposes to include in the adjusted  
24 test year. There was an 18-month span between the end of the test year used in Cascade's  
25 prior rate case, Docket UG-152286, and the test year ended December 31, 2016, used in  
26 the current rate case. The direct testimony of Cascade witness Nicole A. Kivisto in

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<sup>30</sup> Cascade's Response to Public Counsel Data Request 67 and attachment PC-67(d) is provided as Exhibit DMR-25. Remaining attachments to the response were voluminous and are not included in the exhibit.

1 Docket UG-152286 indicated that the prior rate case for Cascade was filed in 2006, and  
2 the preceding rate case was filed in 1995.<sup>31</sup> Thus, Cascade went from 1995 through 2006  
3 and from 2006 through the end of 2015 between rate cases. While the Company  
4 contends that it anticipates filing annual rate cases going-forward, this is not known with  
5 certainty.

6 **Q: How do you recommend rate case costs be treated in the adjusted test year?**

7 A: I recommend that the actual and projected costs for the current rate case be normalized  
8 based on a three-year amortization of the costs associated with the current rate case. If, in  
9 fact, the Company does file rate cases more frequently going forward, then in future rate  
10 cases the costs associated with those cases can also be amortized such that the adjusted  
11 test year expenses reflect a normalized level of such costs. However, if Cascade does not  
12 come in annually, then ratepayers would not be forced to pay the full costs associated  
13 with a rate case filing in each and every year going forward as proposed by Cascade  
14 through its pro forma rate case cost adjustment. By amortizing the costs associated with  
15 a rate case proceedings, the Company will still recover the costs and ratepayers would be  
16 protected from the distinct possibility of continually funding costs in rates that are not  
17 representative of a normal annual expense level.

18 **Q: Why do you recommend a three-year amortization period?**

19 A: While there was an 18-month span between the test year in the prior rate case and the  
20 current rate case, there was a nine-year span and an 11-year span for the two rate cases  
21 preceding Docket UG-152286. While it is not known with certainty how many months  
22 or years will be the norm between rate case proceedings for Cascade going forward, a  
23 three-year normalization period is a reasonable balance to protect ratepayers from the

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<sup>31</sup> *WUTC v. Cascade Nat. Gas. Corp.* Docket UG-152286, Direct Testimony of Nicole A. Kivisto at 3:7-9 (Dec. 1, 2015).

1 inclusion of overstated costs in rates while also allowing the Company to recover the  
2 costs over a reasonable time span.

3 **Q: What adjustment is needed to reflect your recommended normalization of rate case**  
4 **costs?**

5 A: The calculation of my recommended adjustment is shown on Exhibit DMR-5, page 4,  
6 which is a modified version of Company Pro Forma Adjustment P-4 – Rate Case Costs.  
7 The page provides a side-by-side comparison of the Company’s proposed adjustment as  
8 compared to my recommended rate case cost adjustment. I combined the actual 2017  
9 costs for the current rate case of \$351,060 and the Company’s current estimate of the  
10 remaining rate case costs of \$131,000, resulting in total costs associated with this rate  
11 case of \$482,060.<sup>32</sup> Amortizing the resulting costs for this rate case of \$482,060 over a  
12 three-year period results in an annual rate case expense of \$160,687, which is \$51,054  
13 more than the actual rate case costs recorded on Cascade’s books during the 2016 test  
14 year of \$109,633. Thus, Cascade’s pro forma adjustment P-4 should be reduced from the  
15 \$298,512 included in its filing to \$51,054. As shown on line 10 of the calculation, this  
16 results in a \$247,458 reduction to the Company’s proposed rate case expense adjustment.

17 **E. MAOP Deferral**

18 **Q: Please describe Company Pro Forma Adjustment P-6 titled “MAOP Deferral**  
19 **Amortization.”**

20 A: In Docket UG-160787, Cascade filed a petition requesting an order authorizing the  
21 deferral of incremental third-party costs incurred to implement the Maximum Allowable  
22 Operating Pressure Determination and Validation Plan (MAOP Plan). In Order 01 from

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<sup>32</sup> The actual and remaining projected rate case costs were provided by Cascade in response to Public Counsel Data Request 67, provided as Exhibit DMR-25.

1 that Docket, effective November 10, 2016, the UTC approved the requested deferred  
2 accounting treatment with eligible costs limited to amounts paid to outside vendors,  
3 contractors and consultants. The costs being deferred are not permitted to accrue interest  
4 and are to exclude internal employee salaries, legal costs, overhead, and other incidental  
5 employee costs. The UTC Order also indicated that the prudence of the deferred costs  
6 and the appropriate amortization period would be determined in a future rate proceeding.

7 In this case, the Company has included both actual deferred costs and estimated  
8 additional deferrals for the period July 2016 through May 31, 2018. The total actual and  
9 estimated costs included are presented on Company Workpaper MPP WP-1.17<sup>33</sup> and total  
10 \$9,590,868, which the Company proposes to amortize over a 10-year period. This  
11 resulted in \$959,087 being included in the adjusted test year distribution expenses for the  
12 10-year amortization of the estimated deferral amount. The amounts are based on actual  
13 2016 deferrals of \$2,219,857, estimated 2017 deferrals of \$5 million, and estimated  
14 deferrals for January through May of 2018 of \$2,371,011.

15 **Q: Have prior estimates provided by the Company of the amounts to be deferred and**  
16 **timing of the deferrals been accurate?**

17 A: No. UTC Order 01 in UG-160787, Paragraph 2, indicates that Cascade projected it  
18 would incur incremental third-party costs of \$2.6 million in 2016 and \$6 million to \$8  
19 million in 2017 for complying with the completion of the MAOP Plan. The response to  
20 UTC Staff Data Request 68<sup>34</sup> shows that the actual costs deferred in 2016 were  
21 approximately \$2.2 million and the actual costs deferred in 2017 through November 27,

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<sup>33</sup> Company Workpaper MPP WP-1.17 provided as Exhibit DMR-26.

<sup>34</sup> Cascade Natural Gas Response to UTC Data Request 68 is provided as Exhibit DMR-28.

1 2017 were \$2,871,603.<sup>35</sup> The actual costs incurred in 2017 through the date of the  
2 Company's response was significantly lower than the \$6 to \$8 million projected in the  
3 Company's filing requesting authority to defer the costs and were significantly lower than  
4 the projected 2017 costs of \$5 million incorporated in the Company's rate case filing.  
5 Additionally, the Company's filing estimated deferrals for the period of January 2018  
6 through May 2018 of \$2,371,011. The response to Public Counsel Data Request 42(g)<sup>36</sup>  
7 indicates that Cascade has reduced the current estimate of costs to be deferred in that  
8 same five-month period below the amount included in the filing.

9 **Q: Do you agree that the amount of amortization expense associated with the deferred**  
10 **third-party MAOP costs that should be included in the revenue requirements in this**  
11 **case should be based on a combination of actual and estimated amounts?**

12 A: No, I do not. I recommend that the amount of amortization expense should be based on  
13 actual known qualifying third-party costs incurred and should exclude estimates. The  
14 Commission Order 01 in Docket UG-160787 indicated that actual qualifying costs were  
15 approved for deferral and that the prudence of the deferred costs would be determined in  
16 a future rate proceeding. The Order also indicated that deferred costs that are shown to  
17 be imprudent or inappropriate will be disallowed. I do not agree that it is reasonable or  
18 appropriate to include estimated amounts in the amortization expense allowed for  
19 inclusion in this case.

20 **Q: What adjustment should be made to limit the amortization expense to actual third-**  
21 **party costs that have been deferred?**

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<sup>35</sup> Response identified \$3,411,602 of actual and estimated costs for 2017, \$540,000 of which was identified as being estimated amounts. Since the response is dated November 27, 2017, it is assumed that the actual amounts provided were as of the response date.

<sup>36</sup> Cascade Natural Gas Response to Public Counsel Data Request 42 provided as Exhibit DMR-27, attachments excluded.

1 A: As shown on Exhibit DMR-5, page 5, I recommend that Pro Forma Adjustment P-6 be  
2 modified to reduce the deferral balance to \$5,460,327. I am not challenging the  
3 Company's proposed 10-year amortization period; thus, the revised deferral balance  
4 results in annual amortization expense of \$546,033, which is \$413,054 less than the  
5 \$959,087 amortization expense proposed by the Company. As indicated in the schedule,  
6 the deferral balance of \$5,460,327 is based on the actual \$2,219,857 deferred during 2016  
7 and \$2,871,603 of actual 2017 deferrals identified in the Company's response to UTC  
8 Staff Data Request 68 and \$368,867 of additional invoices received by the Company that  
9 were identified in the response to UTC Staff Data Request 93.<sup>37</sup>

10 **Q: By including the actual MAOP deferral balances of \$5,460,327 in the calculation of**  
11 **your recommended adjustment, does this mean that you are recommending that all**  
12 **of this amount be considered prudent and appropriate for recovery from**  
13 **ratepayers?**

14 A: No. I am not taking a position on the prudence or appropriateness of the actual  
15 third-party costs deferred because I did not participate in Docket PG-150120, which  
16 resulted in the MAOP Settlement, and am not intimately familiar with the MAOP  
17 Settlement and its related issues. I do note that UTC Staff has requested a breakdown of  
18 the deferred costs between amounts related to pre-code pipe and post-code pipe. Public  
19 Counsel plans to review the testimony of UTC Staff and other intervenors filed in this  
20 case. If any of these parties provide compelling reasons to exclude any of the actual costs  
21 that have been deferred by Cascade, Public Counsel may explore this issue further during  
22 hearings or in its brief.

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<sup>37</sup> Cascade Natural Gas Response to UTC Staff Data Request 68 previously identified as being provided in Exhibit DMR-28 and response UTC Staff Data Request 93, excluding attachments, provided as Exhibit DMR-29.

1 **Q: Is Cascade forever precluded from recovering third-party MAOP costs that it will**  
2 **incur after the costs included in your recommended adjustment?**

3 A: No. In his direct testimony, at page 9, Mr. Parvinen proposes to continue to use a  
4 deferral account to track additional expenditures associated with the implementation of  
5 the MAOP Settlement and to track recovered costs. Under this proposal, the Company  
6 would update the amortization amount in future rate cases. At this time, I am not  
7 opposed to allowing the Company to defer additional actual incremental third-party costs  
8 that would qualify for deferral under Commission Order 01 in UG-160787 for  
9 consideration in the next rate case proceeding. This would allow the rates from this case  
10 to include the amortization of the actual costs incurred and permit the deferral of  
11 additional actual costs incurred.

12 **V. PUBLIC COUNSEL RECOMMENDED ADJUSTMENTS**

13 **Q: Are you recommending additional adjustments to the test year beyond those**  
14 **proposed by Cascade or discussed above?**

15 A: Yes. At this time, I recommend the following additional adjustments to the test year  
16 ended December 31, 2016:

- 17 • PC-1 – Revised FIT Rate;
- 18 • PC-2 – Remove Accrual for Legal Matter;
- 19 • PC-3 – Reduce MDU Rental Charges;
- 20 • PC-4 – Reduce Market Data Subscription Fees;
- 21 • PC-5 – Remove Foros True Boutique Expense;
- 22 • PC-6 – Remove Non-Qualified Pension Plan Expense; and
- 23 • PC-7 – Reduce Incentive Compensation Expense.

1 Each of these revisions are shown on Summary Exhibit DMR-4, page 2 of 2 and discussed  
2 below. The supporting calculations for the above listed adjustments that require calculations  
3 are presented in Exhibit DMR-6.

4 **A. Revised FIT Rate**

5 **Q: What is the purpose of Adjustment PC-1 - Revised FIT Rate?**

6 A: The amount of federal income taxes included in the actual results for the test year ending  
7 December 31, 2016, in Mr. Parvinen's Exhibit MPP-2 are based on the 35 percent federal  
8 income tax rate in effect during the test year. Mr. Parvinen's direct testimony indicates  
9 that the figures shown in Column (1) of his Exhibit MPP-2, which is titled "12/31/2016  
10 Results Per Company Filing," are the actual Washington booked amounts for the test  
11 year.<sup>38</sup> My adjustment PC-1 provides the adjustment needed to reflect the federal income  
12 tax expense prior to the various restating and pro forma adjustment based on the 21  
13 percent federal income tax rate currently in effect.

14 **Q: How did you calculate the adjustment?**

15 A: Mr. Parvinen's workpaper MPP WP-1.1, provided as Exhibit DMR-30, shows that the  
16 Washington unadjusted State & Federal Income Tax Expense on Exhibit MPP-2 of  
17 \$4,154,374 consists almost entirely of current and deferred federal income tax expense,  
18 with a small offset for the investment tax credit adjustment. Thus, on Exhibit DMR-6,  
19 page 1 for Public Counsel Adjustment P-1, I began with \$4,154,374, as reflected in  
20 Mr. Parvinen's workpaper. I then divided the \$4,154,374 by the test year FIT rate of 35  
21 percent and multiplied the result by the current 21 percent federal income tax rate. This  
22 resulted in a revised federal income tax expense, inclusive of both current and deferred  
23 expense, of \$2,492,624. The revised amount of \$2,492,624 is consistent with the revised

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<sup>38</sup> Parvinen, Exh. MPP-1T at 2:23-24.



1 amount presented by the Company in the attachments to its original and supplemental  
2 responses to Bench Request 1. As shown on Exhibit DMR-6, page 1 (Adjustment PC-1),  
3 federal income tax expense should be reduced by \$1,661,750 (\$4,154,374 - \$2,492,624)  
4 in order to base the starting per-books amount on the current federal income tax rate of 21  
5 percent. This adjustment to reduce income tax expense by \$1,661,750 is reflected on  
6 summary Exhibit DMR-4 at page 2 and on summary Exhibit DMR-2. The impact on  
7 federal income tax expense associated with the remaining adjustments to the test year per  
8 books amounts presented on Exhibit DMR-4 are based on the current 21 percent federal  
9 income tax rate.

10 **B. Remove Accrual for Legal Matter**

11 **Q: What is the purpose of Adjustment PC-2 – Remove Accrual for Legal Matters?**

12 A: During the test year, Cascade booked \$280,000 in July 2016 to Account 925 – Injuries  
13 and Damage Expense, with the explanation of “Litigation Claim 2014” and “To accrue  
14 2014 Litigation.” The amount was \$210,756 on a Washington jurisdictional basis. As  
15 shown on Exhibit DMR-4, page 2, I recommend that the \$210,756 be removed from test  
16 year expenses.

17 **Q: What is the \$280,000 (\$210,756 Washington jurisdictional) cost charged to Injuries  
18 and Damages expense for?**

19 A: Public Counsel Data Request 97(a) asked the Company to explain, in detail, what the  
20 entry was for and what the litigation involved. The Company responded as follows:

21 This litigation is the result of a labor arbitration award made on July 7,  
22 2016, regarding a July 11, 2013 termination of a union employee. The  
23 arbitrator in the underlying proceeding held in his award that the  
24 termination was not proper under the terms of the collective bargaining  
25 agreement between the company and the union, and ordered the company  
26 to reinstate the employee to his job and award him backpay from the time  
27 of his termination. Because the Company disagreed that the arbitrator’s

1 award was legally valid under the terms of this specific collective  
2 bargaining agreement, it appealed the arbitrator's ruling to the district  
3 court. (In the meantime it did reinstate the employee on July 18, 2016 but  
4 did not pay the awarded backpay.) The district court issued a conflicting  
5 decision that remanded the decision back to the arbitrator, which resulted  
6 in the Union appealing the District Court's order to the ninth Circuit Court  
7 of Appeals and the company cross-appealing the same order. The parties  
8 have been engaging in settlement negotiations with a Ninth Circuit  
9 Magistrate, but have yet to reach a settlement. The parties are  
10 simultaneously briefing the dispute to the Ninth Circuit and expect a  
11 decision within the next 18-24 months if a settlement is not reached at an  
12 earlier date.

13 When asked how the \$280,000 booked during the test year was determined in subpart (g)  
14 of the data request, the Company responded:

15 In 12/2014 when the union requested arbitration the parties engaged in  
16 settlement negotiations and \$110,000 was booked as the liability based on  
17 the current discussions. In 2015 an additional \$10,000 was booked based  
18 on the settlement discussions. In 2016 the arbitrators ruling pursuant to a.  
19 above required a calculation of back wages and benefits since termination  
20 in 2013 which resulted in an additional \$280,000 being booked.

21 The response to Public Counsel Data Request 97, as well as the legal pleadings filed in  
22 the litigation that were attached to the response, are being provided as Exhibit DMR-31.

23 **Q: Why do you recommend that this litigation accrual be removed from test year**  
24 **expenses?**

25 A: The accrual should be removed for several reasons. First, the cost is not an annually  
26 recurring costs. Second, the cost pertains to an event that occurred many years prior to  
27 the test year (i.e., during 2013). Third, if the Company is ultimately successful or  
28 partially successful in its position in this union labor dispute, it presumably would not be  
29 required to pay the full amount accrued or the full amount charged to expense in the test  
30 year. While it may have been appropriate to accrue the costs to the Company's books  
31 during the test year for accounting purposes, the event triggering the accrual did not

1 occur during the test year and hopefully a similar event will not occur during the rate  
2 effective period in this case.

3 Furthermore, it is my opinion that these costs associated with a labor dispute with  
4 a Company union employee should not be charged to the Company's Washington  
5 ratepayers. The Company's shareholders elect the Board of Directors, who then  
6 determine the senior management responsible for operating the Company. If  
7 management is ultimately found to have improperly terminated a union employee, under  
8 the terms of the union agreement, shareholders should be responsible for the associated  
9 costs, not ratepayers.

10 **C. Reduce MDU Rental Charges**

11 **Q: Please discuss the test year expense recorded in FERC Account 931 – Rent Expense**  
12 **as compared to prior years.**

13 A: In response to Public Counsel Data Request 4, the Company provided a spreadsheet that  
14 compared expenses by FERC account for a five-year period on a Washington  
15 jurisdictional basis. The amount of expense recorded in Account 931 – Rents Expense,  
16 on a Washington jurisdictional basis for the period 2012 through 2016 was as follows:

Year	Amount
2012	\$ 971,840
2013	\$ 933,704
2014	\$ 925,407
2015	\$ 925,270
2016	\$ 1,238,674

17 As demonstrated in the above table, the amount of rent expense included in the test year  
18 was significantly higher than the amount recorded in each of the prior four years. For  
19 2014 and 2015, the expense held steady at approximately \$925,000, then increased  
20 significantly to over \$1.2 million in the test year.

1 **Q: Did the higher expense level recorded during the test year continue into the**  
2 **following year?**

3 A: No. Based on actual information provided for 2017 through October, the amount  
4 recorded in Account 931 declined as compared to the amount recorded during the 2016  
5 test year. In response to Public Counsel Data Request 86,<sup>39</sup> the Company indicated that  
6 MDU allocated costs in Account 931 are lower for the 12-month period ended  
7 October 31, 2017, as compared to the test year ended December 31, 2016, as a result of a  
8 decrease in O&M costs and a change to the Utility Group's corporate factor. The  
9 response indicates that the MDU Allocated costs for the 12 months ended  
10 October 31, 2017, were \$121,305 lower than the test year amount, and the costs allocated  
11 from Intermountain Gas Company (an affiliate) for that period were \$42,200 lower.

12 **Q: Were there any large journal entries recorded in Account 931 – Rents Expense**  
13 **during the test year?**

14 A: Yes. The response to Public Counsel Data Request 26<sup>40</sup> indicates that in June 2016, an  
15 entry was recorded on the Company's books in June 2016 to true-up charges from MDU  
16 for the five prior months.

17 **Q: Did the Company indicate what MDU costs are included in Account 931 rent**  
18 **expense?**

19 A: In Attachment PC-86F provided with the response to Public Counsel Data Request 86,  
20 Cascade indicated that the test year charges from MDU recorded in Account 931  
21 included assets located in Bismarck, North Dakota and included the following: MDU  
22 Utility Group and MDUR General Office Complex – support areas; MDU Utility Group

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<sup>39</sup> Cascade Natural Gas Response to Public Counsel Data Request 86, with attachments, provided as Exhibit DMR-32.

<sup>40</sup> Cascade Natural Gas Response to Public Counsel Data Request 26 provided as Exhibit DMR-33.

1 Utility shared assets; MDU Utility Group – FutureSource; MDUR office services and  
2 MDUR PowerPlan Budget & Tax modules. The attachment also indicated that the  
3 monthly charges from MDU recorded in Account 931 on a Washington jurisdictional  
4 basis were \$52,390 during 2015, \$75,189<sup>41</sup> during 2016, and \$63,105 during 2017.  
5 These amounts are consistent with the large increase in Rents Expense during the test  
6 year and the subsequent decline for 2017.

7 **Q: Are you recommending any adjustments to the test year rent expense?**

8 A: Yes. It is clear that the amount recorded in Account 931 – Rents Expense during the test  
9 year is not representative of a normal ongoing expense level. The expenses were  
10 distorted by the one-time entry made during the test year, and the rental costs charged to  
11 Cascade from MDU have declined since the test year. As shown on Exhibit DMR-6,  
12 page 2, for Public Counsel Adjustment PC-3, I recommend that the amounts to include in  
13 the adjusted test year rents expense charged from MDU be based on the monthly charges  
14 from MDU in effect during 2017 of \$63,105, resulting in an annual expense level of  
15 \$757,260. As shown on the exhibit, the recommended expense level of \$757,260 results  
16 in a \$145,014 reduction to the amount included in the test year of \$902,274. This  
17 \$145,014 reduction is reflected on my summary Exhibit DMR-4, page 2, under  
18 adjustment PC-3.  
19

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<sup>41</sup> The 2016 charges included a true-up adjustment in June 2016 for the months of January through June of 2016. The monthly amount in the response for 2016 is presumably the average monthly amount inclusive of the true-up adjustment.

1           **D. Reduce Market Data Subscription Fees**

2           **Q:     Above, you discuss a large increase in expense in Account 931 during the test year.**  
3           **Were there any additional expense accounts that increased significantly in the test**  
4           **year compared to prior years?**

5           A:     Yes. As previously mentioned, the response to Public Counsel Data Request 4 included  
6           an attached spreadsheet that compared expenses, by FERC account for a five-year period  
7           on a Washington jurisdictional basis. The amount of expense recorded in Account 813 –  
8           Other Gas Supply Expenses increased from approximately \$312,000 in 2014 and  
9           \$338,000 in 2015 to \$518,989 in the 2016 test year on a Washington jurisdictional basis.

10          **Q:     Did you inquire why the expenses recorded in Account 813 – Other Gas Supply**  
11          **Expenses were so much higher in the test year?**

12          A:     Yes. In response to Public Counsel Data Request 28 (provided as Exhibit DMR-34), the  
13          Company indicated that “\$128K related to gas market data subscription fees in 2016” and  
14          that a contract was renegotiated “to remain in compliance with the current vendor to  
15          continue using them as a resource for market intelligence and price discovery, which is  
16          essential to natural gas supply procurement activities.”

17          **Q:     How was the Company out of compliance resulting in the need to renegotiate the**  
18          **contract?**

19          A:     When asked for an explanation of how the Company was out of compliance with the  
20          current vendor in Public Counsel Data Request 84,<sup>42</sup> the Company responded as follows:

21                   In late 2015, Platt’s learned through meetings with personnel at MDU  
22                   subsidiaries that subsidiaries Willison Basin Pipeline and Prairie Lands  
23                   were extracting market data from both the Gas Daily and Inside FERC  
24                   Platts reports and using the information within various workflow  
25                   processes with MDU Resources. Unfortunately, pricing within the Gas

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<sup>42</sup> Cascade Natural Gas Response to Public Counsel Data Request 84 provided as Exhibit DMR-35.  
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1 Daily (or any Platts Publication) can't be extracted or used in any type of  
2 workflow process without proper licensing. In order to use Platts pricing  
3 subscribers are required to have a Market Data License. MDUR, who  
4 holds the subscription for all subsidiaries, erroneously assumed the  
5 corporation had a Market Data license with the subscriptions.

6 **Q: Is the \$128,000 recorded during the test year for gas market data subscription fees**  
7 **anticipated to be the normal recurring level of such costs?**

8 A: No. In response to Public Counsel Data Request 84(a), the Company indicated that the  
9 "annual costs will run an estimated \$75K." The response also indicated that the 2015  
10 invoice from Platts was paid in January 2016 resulting in 2016 expenses being higher.  
11 Thus, 2016 test year expenses includes more than one year of costs charged from Platts,  
12 as the invoice for 2016 services was also booked in 2016.

13 **Q: What adjustment should be made to the test year expenses in Account 813 to ensure**  
14 **the costs only include one year of gas market data subscription fees?**

15 A: Test year expenses should be reduced by \$53,000 on a Washington jurisdictional basis.  
16 This is calculated as the difference between the \$128,000 booked during the test year and  
17 the normal annual cost level of \$75,000 (\$128,000 - \$75,000). This \$53,000 reduction to  
18 test year production expenses is shown on Exhibit DMR-4, page 2, under adjustment  
19 PC-4.

20 **E. Remove Foros True Boutique Expense**

21 **Q: What is the purpose of Adjustment PC-5 – Remove Foros True Boutique Expense?**

22 A: During the test year, Cascade's parent company, MDU Resources Group, Inc., recorded  
23 \$513,430 in expenses to FERC Account 923 – Outside Services Expense for charges  
24 from Foros True Boutique, of which, \$69,988 was charged to the Company. Of the  
25 \$69,988, \$52,680 was allocated to the Washington jurisdiction. I recommend that the  
26 charges from Foros True Boutique that was allocated to the Company's Washington

1 jurisdiction be removed from the test year, resulting in the \$52,680 expense reduction  
2 shown on Exhibit DMR-4, page 2, under the column for Adjustment PC-5.

3 **Q: Did the Company provide any information on what services were provided to MDU**  
4 **Resources by Foros True Boutique during the test year and why a portion of the**  
5 **costs were charged to Cascade’s Washington jurisdiction?**

6 A: The response to Public Counsel Data Request 89, provided as Exhibit DMR-36, states  
7 under subpart (b) that: “Foros was retained to produce a Strategic Analysis for MDU  
8 Resources Group and its subsidiaries (the ‘Company’), including assisting the Company  
9 in developing its strategic and tactical plan and related financial and strategic  
10 alternatives.” The response also indicated that “[t]he strategic analysis addressed issues  
11 that included credit ratings, subsidiary capital requirement and corporate structure which  
12 are important to Cascade and its customers.”

13 In response to the request for a copy of the contract or agreement with Foros True  
14 Boutique that was effective during the test year, the response to subpart (c) indicated, in  
15 part, that “[t]he terms of the agreement are confidential and cannot be disseminated  
16 without the written consent of Foros, or a subpoena or order after notification to Foros  
17 and assurance of confidential treatment.”

18 In response to the request for a copy of any written recommendations, analysis or  
19 reports provided from Foros True Boutique, the response to subpart (d) stated: “The  
20 report and recommendations are highly confidential and were not disseminated except to  
21 the Company’s Board of Directors and a select number of the Company’s executives.”

22 **Q: What does Foros’ website indicate about the firm and the services it provides?**

23 A: The website, under “About Foros” states the following: “Foros is a strategic financial  
24 and M&A advisory boutique. We make a serious and thoughtful commitment to our



1 clients. We provide independent advice with the goal of creating shareholder value  
2 beyond what is implied by organic business plans.”

3 **Q: Why do you recommend these costs be removed from the test year?**

4 A: These costs should not be charged to the Company’s ratepayers. The Company has not  
5 provided compelling evidence that the services provided by Foros during the test year  
6 were beneficial to Cascade’s Washington customers. The Company only provided a very  
7 high-level description of why Foros was retained, did not provide a copy of the  
8 agreement describing the services provided, and would not provide a copy of the report  
9 and recommendations resulting from the services provided by Foros. Foros’ website  
10 indicates that the independent advice provided has the “goal of creating shareholder value  
11 beyond what is implied by organic business plans.” Washington ratepayers should not be  
12 charged these costs in rates because it appears that the purpose behind the costs is to  
13 create shareholder value.

14 **F. Remove Non-Qualified Pension Plans Expense**

15 **Q: What amount is included in the test year expenses for the Non-Qualified Pension**  
16 **Plans?**

17 A: Cascade’s response to Public Counsel Data Request 31 identifies \$127,508 in test year  
18 expenses on Washington jurisdictional basis for the non-qualified pension plans. These  
19 include costs associated with Supplemental Executive Retirement Plans (SERP) and  
20 Supplemental Income Security Plans (SISP). The \$127,508 of non-qualified pension  
21 plan expense also include offsets associated with SERP investment earnings.

22 The non-qualified pension plans in effect during the test year included an MDU  
23 SISP, the Cascade SERP, and an Intermountain Gas Company SERP.

24 **Q: What is a non-qualified pension plan?**

1 A: Section 415 of the Internal Revenue Service (IRS) Code sets dollar limitations on the  
2 amount of annual benefits that participants can receive from “qualified” pension plans.  
3 Non-qualified pension plans were developed by some companies in response to the IRS  
4 setting limitations on the amount of dollars that may be paid out annually from qualified  
5 pension plans. The IRS limit on the annual amount that participants can receive at  
6 retirement age for qualified defined benefit pension plans for the 2016 test year was  
7 \$210,000. The IRS limit on the annual compensation that may be used in calculating the  
8 qualified retirement benefits that are deductible was \$265,000 in 2016. The non-qualified  
9 pension plans would provide additional retirement benefits to select executives that are  
10 above and beyond the level of benefits the select executives already receive through their  
11 participation in the qualified pension plan.

12 **Q: Are you recommending any adjustments associated with the non-qualified pension**  
13 **plan expenses included in the test year?**

14 A: Yes. I recommend that the expense included in the test year associated with the  
15 non-qualified pension plans be removed. As shown on Exhibit DMR-4, page 2 of 2,  
16 under Adjustment PC-6, I removed the test year non-qualified pension plan expense of  
17 \$127,508. Such costs, which provide excess retirement benefits to a few select  
18 employees that are above and beyond the IRS limitations provided for the qualified  
19 pension plans, should not be passed on to ratepayers. I note that Pacific Power & Light  
20 excludes non-qualified pension plan expenses from its revenue requirements in  
21 Washington rate case proceedings.

22 **G. Reduce Incentive Compensation Expense**

23 **Q: What amount is included in test year expenses for incentive compensation costs?**

1 A: Test year expenses include \$1,765,931 on a Washington jurisdictional basis for incentive  
2 plan costs. The Company did not adjust the test year amount; thus, the full \$1,765,931  
3 remains in test year expenses.<sup>43</sup>

4 **Q: Was the entire \$1,765,931 specific to Cascade employees?**

5 A: No. Of the \$1,765,931, only \$629,136 was for incentive compensation paid to Cascade  
6 employees.<sup>44</sup> The remaining \$1,136,795 included in test year expenses includes:  
7 (1) \$577,189 allocated from Cascade's parent company – MDU Resources Group;  
8 (2) \$512,889 allocated from Montana Dakota Utilities; and (3) \$46,716 allocated from  
9 Intermountain Gas Company.<sup>45</sup>

10 **Q: What specific incentive plans were in place during the test year?**

11 A: The response to Public Counsel Data Request 92, provided as Exhibit DMR-39, identifies  
12 the following incentive plans that were in place during the 2016 test year: (1) MDU  
13 Utility Group Employee Incentive Plan 2016; (2) MDU Utility Group Senior  
14 Management Incentive Plan 2016; (3) MDU Resource Group Inc. Executive  
15 Compensation Program Plan 2016; (4) MDU Resource Group Inc. Long Term  
16 Performance-Based Incentive Plan 2016; and (5) MDU Resource Group Inc.  
17 Nonqualified Defined Contribution Plan.

18 **Q: What is the breakdown of the \$1,765,931 of test year incentive compensation**  
19 **expense by each of the five separate incentive compensation plans identified above?**

20 A: Cascade has not been able to provide the breakdown of the \$1,765,931 included in test  
21 year expenses by plan. Public Counsel Data Request 91 asked the Company, in part, to

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<sup>43</sup> While several Company data responses identify the amount of incentive compensation expense included in the test year as \$1,761,071, the response to Public Counsel Data Request No. 110, provided as Exhibit DMR-37, indicated that the \$1,761,071 was incorrect. The response provided the corrected amount of \$1,765,931.

<sup>44</sup> Cascade Natural Gas Response to UTC Staff Data Request 110, provided as Exhibit DMR-38.

<sup>45</sup> *Id.*

1 provide a breakdown of the amount included in test year expense by each of the  
2 individual plans. The request also asked the Company to provide as part of the response  
3 the total amount included in test year expenses on a Washington jurisdictional basis on a  
4 plan-by-plan basis separated between amounts directly applicable to Cascade and  
5 amounts charged to Cascade from affiliated entities. In the response, provided as Exhibit  
6 DMR-40, the Company indicated that “[t]he amounts are not separated by the individual  
7 plans identified in response to PC-35.” In the response, Cascade provided a breakdown  
8 of the amount of Cascade employee incentive plan costs that were directly charged and  
9 allocated to the Washington jurisdiction, and the total amounts allocated to the Cascade  
10 Washington jurisdiction from the parent company and affiliates, but was unable to  
11 provide a breakdown of the costs on a plan-by-plan basis.

12 Public Counsel Data Request 109 asked if it was the Company’s position that “it  
13 does not know and is unable to determine the amount in test year expenses on a  
14 Washington jurisdictional basis for each of the separate incentive plans....” The question  
15 also asked for an explanation of why the Company was unable to determine the amount  
16 included in test year expense on a plan-by-plan basis. The response, which is provided as  
17 Exhibit DMR-41, stated:

18 The company can pull the data by incentive plan, but the exercise would  
19 take additional time to complete due to the plans, participants and the  
20 allocation of the expenses. The company has included in this response the  
21 amount for officer/executive incentive amounts included in the test year  
22 summarized at a different level than by plan. The total amount of  
23 \$407,001 in the table below is part of the \$1,765,931 provided in the  
24 response to PC-110.

25 Cascade has not provided the amount included in test year expense for each of the five  
26 separate incentive compensation plans for which the costs are included in the test year.  
27 The response to Public Counsel Data Request 109 did indicate that test year expenses

1 include \$407,001 for “Stock/W-2 Earnings” and “2017 Bonus pmt (earned 2016)” on a  
2 Washington jurisdictional basis for 11 officers/executives. However, this does not  
3 include the amount of costs by plan, nor does it provide all the information that would be  
4 needed to determine what portion of the test year incentive compensation expense is  
5 associated with financial and other shareholder driven goals.

6 Needless to say, it is quite disappointing that Cascade is unable to identify the  
7 amount included in its 2016 test year expenses for each of the five separate incentive  
8 plans.

9 **Q: Was the Company asked to provide a breakdown of the 2016 test year incentive**  
10 **compensation expense by each of the various goals in the incentive compensation**  
11 **plans?**

12 A: UTC Staff Data Request 109,<sup>46</sup> which was a follow-up to Public Counsel Data  
13 Request 34, asked the Company to provide a breakdown of the test year incentive  
14 compensation expense that was paid relating to meeting financial goals, meeting O&M  
15 targets and meeting customer satisfaction goals. The question also asked for a  
16 breakdown of each of these amounts by amounts paid to executives and amounts paid to  
17 employees.

18 **Q: Did the response provide all of the information requested?**

19 A: No, it did not. The Company indicated that the \$1,761,061 (corrected in another response  
20 as \$1,765,931) could be “estimated” into certain categories. In the response, the  
21 Company provided a breakdown of the amounts specific to Cascade between the  
22 following categories: Earnings, O&M, Customer Service, Integrity Leadership Goal,  
23 ROIC (return on invested capital) and EPS (earnings per share). The Company was

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<sup>46</sup> Cascade Natural Gas Response to UTC Staff Data Request 109 provided as Exhibit DMR-21.  
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1 unable to provide a breakdown of the \$1,136,795 charged from its parent company and  
2 affiliated entities in a similar manner. The response indicated, in part, that: “IGC, Utility  
3 Group, and MDUR amounts are charged to CNG for various officer and employee plans  
4 each with differing targets, payout percentages, and cross charge percentages (sic) in  
5 place depending upon numerous factors (i.e., paygrade, plan type, individual SLD to  
6 CNG, etc.)” The response also stated, “Estimated amounts for each plan by performance  
7 factor is not known by CNG.”

8 **Q: Do you recommend that the test year incentive compensation expense be adjusted?**

9 A: Yes. My recommended adjustment, which reduces test year expenses by \$1,388,253, is  
10 shown on Exhibit DMR-6, page 3 of 3. This adjustment, reducing test year expenses by  
11 \$1,388,253, is also reflected on summary Exhibit DMR-4, page 2, under Public Counsel  
12 Adjustment PC-7. The adjustment removes the portion of the incentive compensation  
13 expense for Cascade employees based on achieving earnings goals, return on invested  
14 capital goals, and earnings per share goals. These are goals that benefit shareholders and  
15 are targeted at increasing shareholder value. Such goals shift the focus of employees  
16 onto matters that benefit shareholder; therefore, shareholders should fund them. As  
17 shown on Exhibit DMR-6, at page 3, for Adjustment PC-7, adjusted test year expenses  
18 would still include \$377,677 of incentive compensation expense that is associated with  
19 Cascade employees achieving O&M goals, customer service goals, and integrity  
20 leadership goals. The adjustment also removes all of the incentive compensation costs  
21 charged to Cascade from its parent company and affiliates.

22 **Q: Why have you removed all of the test year incentive compensation expense charged**  
23 **to Cascade from MDU Resources Group, Montana Dakota Utilities and**  
24 **Intermountain Gas Company?**

1 A: As discussed previously, Cascade is unable to provide a breakdown of the \$1,136,795 of  
2 incentive compensation expenses charged from these entities by incentive plan or by the  
3 goals that were used to determine the payouts to these parent and affiliated entity  
4 executives and employees during the test year. Cascade has not provided the portion of  
5 these costs in the test year that are based on the achievement of goals that may benefit  
6 Cascade's ratepayers, if any, as compared to costs associated with the achievement of  
7 goals that focus on shareholder benefits. There is no breakout of the amount of expense  
8 that was determined based on achieving earnings goals, return on invested capital goals,  
9 or earnings per share goals. The Company has not met a reasonable burden of proof  
10 demonstrating that any of these costs should be charged to Cascade's Washington  
11 ratepayers.

12 **Q: Is there any publicly available information you can share that demonstrates that the**  
13 **incentive compensation plans are driven by goals that benefit shareholders?**

14 A: Yes. The MDU Resources Group, Inc. Annual Proxy Statement, SEC Schedule 14A  
15 Information, dated March 24, 2017, under the Executive Compensation Section includes  
16 the heading "Objectives of our Compensation Program."<sup>47</sup> This section, at page 29 of the  
17 Proxy Statement, indicates that the MDU Resource Group, Inc.'s written executive  
18 compensation policy for the executive officers includes as the first stated objective:  
19 "recruit, motivate, reward, and retain high performing executive talent required to create  
20 superior long-term total stockholder return in comparison to our peer group." Another  
21 stated objective is to "reward executives for short-term performance, as well as for  
22 growth in enterprise value over the long-term." The Proxy Statement, at page 32,

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<sup>47</sup> The MDU Resources Group, Inc. Annual Proxy Statement may be found on the Security and Exchange Commission's website by going to [www.SEC.gov/edgars](http://www.SEC.gov/edgars) and then entering MDU Resources Group under the Company search function.

1 identified the measures for the 2016 incentive plan performance that were established by  
2 the compensation committee for the business segment presidents. All business segments  
3 included the “MDU Resources Diluted Adjusted Earnings per Share” target. The electric  
4 and natural gas distribution segment also had “Return on Invested Capital” and “Business  
5 Segment Earnings” as measures in the incentive plan.

6 With regard to the Long-Term Performance-Based Incentive Plan, the Proxy  
7 Statement, at page 34, stated, in part:

8 As in the past, the compensation committee used performance shares as  
9 the form of long-term incentive compensation for 2016 and established the  
10 company’s total stockholder return in comparison to the total stockholder  
11 return for the peer group companies over a three-year period as the  
12 performance measure for vesting of long-term incentive compensation.

13 Hence, this plan’s goals are shareholder oriented.

## 14 VI. ADDITIONAL TCJA IMPACTS

15 **Q: Did Cascade provide information regarding all of the impacts of the TCJA on the**  
16 **various components of its revenue requirements?**

17 **A:** In its original and supplemental responses to Bench Request 1, Cascade provided impacts  
18 of the reduction to the FIT rate on the income tax expense for the adjusted 2016 test year  
19 in its filing. The response also provided the excess deferred federal income tax (EDFIT)  
20 reserve balances resulting from the reduction to the income tax rate, broken out between  
21 plant related EDFIT that reverses under the Average Remaining Asset Method (ARAM)  
22 required under the IRS normalization rules and the non-protected portion that does not  
23 fall under the IRS normalization rules. While the plant related EDFIT that is protected  
24 under the IRS normalization rules will be amortized under the ARAM methodology over  
25 the remaining regulatory lives of the associated property, the Company has proposed that  
26 the non-protected EDFIT balance be amortized over 10 years. The information provided



1 by the Company in the supplemental response to Bench Request 1 and attachment “BR-  
2 01(02) Supplemental.xlsx” identifies the estimated amortization of the protected EDFIT  
3 under the ARAM as approximately \$2.19 million in 2018, and the amortization of the  
4 non-protected EDFIT balance as \$1,017,702 annually. These amounts are on a total  
5 Cascade basis. The response indicates that the Washington Plant allocation factor is  
6 77.24 percent, which would result in a \$1.7 million amortization of the protected portion  
7 (\$2.19M x 77.24%) and \$786,073 amortization of the non-protected portion (\$1,017,702  
8 x 77.24%) on a Washington basis, or a combined amortization impact of approximately  
9 \$2.5 million.

10 **Q: Your recommended revenue requirement for Cascade is based on the current FIT**  
11 **rate of 21 percent. What federal income tax rate is currently factored into the rates**  
12 **Cascade is currently collecting?**

13 A: Current rates were established when the FIT rate was 35 percent. Thus, during the  
14 current period, Cascade is collecting revenues from customers that were established  
15 based on the 35 percent FIT.<sup>48</sup> Beginning January 1, 2018, Cascade’s actual income tax  
16 expense is based on the current FIT rate of 21 percent.

17 **Q: Has the Company estimated the excess amount of income tax expense it will collect**  
18 **from customers in 2018, as a result of the reduced FIT rate not being reflected in**  
19 **current rates charged to its Washington ratepayers?**

20 A: The Company has assumed that new rates from this case will take effect August 1, 2018.  
21 As a result, the Company will be over-collecting income tax expense in rates for an  
22 eight-month period, from January 1, 2018, to July 31, 2018. In Cascade’s supplemental

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<sup>48</sup> It is not clear what amount is factored into current base rates for income tax expense as Cascade’s most recent rate case, Docket UG-152286 was resolved through a Joint Settlement Agreement and the income tax expense was not specifically identified in the agreement.

1 response to Bench Request 1(C), Cascade estimated the tax benefit resulting from the  
2 difference in the 35 percent FIT rate factored into current rates and the actual current 21  
3 percent FIT rate as \$1,394,552. The Company provided its calculation of the estimated  
4 tax benefit in attachment “BR-01(04) Supplemental.xlsx” provided with its supplemental  
5 response to Bench Request 1.

6 In calculating the \$1,394,552 estimated tax benefit over the period  
7 January 1, 2018 through July 31, 2018, the Company used the amount of income tax  
8 expense for its adjusted 2016 test year based on the 21 percent FIT rate, which it  
9 presented in “BR-01(01) Supplemental.xlsx.” The Company’s calculation is shown on  
10 Exhibit DMR-7, column (A). In response to Bench Request 1(C), Cascade indicated that  
11 it will not be able to provide the final actual income taxes for 2018 “until the 2018 tax  
12 return is complete late in 2019.” The Company asserts in its response that its use of the  
13 income tax expense for its adjusted test year in calculating the impacts is a reasonable  
14 proxy for estimating the amount of tax benefit.

15 **Q: Does your adjusted test year income tax expense differ from the amount calculated**  
16 **by Cascade?**

17 A: Yes. Each of my recommended revisions to Cascade’s proposed adjustments and each of  
18 the adjustments recommended in this testimony impact the adjusted test year income tax  
19 expense. As shown on Exhibit DMR-4, in the final column on page 2, my adjusted test  
20 year income tax expense, based on the current FIT rate of 21 percent, is \$4,543,207,  
21 which is \$957,217 greater than Cascade’s adjusted test year amount of \$3,585,990. As  
22 shown on Exhibit DMR-7, column (B), if the amount of adjusted test year income tax  
23 expense is revised to reflect Public Counsel’s adjusted amount in the Company’s  
24 calculation of the estimated tax benefit for the period January 1, 2018, to July 31, 2018,

1 the estimated tax benefit increases from the \$1,394,522 calculated by Cascade to  
2 \$1,766,803.

3 **Q: What has Cascade proposed with regard to the excess federal income taxes**  
4 **currently being collected in rates?**

5 A: The Company proposed in its supplemental response to Bench Request 1(D) that the  
6 impacts of the TCJA on the 2018 results of operations for the period January 1, 2018,  
7 through the anticipated rate effective date from this proceeding (estimated as  
8 August 1, 2018) be treated as a period cost and included in the 2018 results of operations.  
9 Cascade proposes that these results would be incorporated into Cascade's existing  
10 earnings sharing mechanism. The Company proposes that 100 percent of the earnings in  
11 2018 above its authorized rate of return be flowed-back to customers through the  
12 earnings sharing mechanism established in the Settlement Agreement in Docket  
13 UG-152286. The Company would remove the 50 percent sharing of over-earnings  
14 between shareholders and ratepayers to instead reflect a 100 percent return of the excess  
15 earnings to customers for 2018 under its proposal. Cascade proposes to use some of the  
16 over-collected tax to "mitigate the impacts of regulatory lag."<sup>49</sup> Cascade further states  
17 that it anticipates that it will not earn its authorized return in 2018; thus, the  
18 over-collected federal income taxes would not be returned to Washington ratepayers  
19 under Cascade's proposal.

20 Public Counsel believes all of the over-collected federal income taxes resulting  
21 from the TCJA should be flowed-back to ratepayers. Ratepayers are currently paying a  
22 higher amount for income taxes in rates than the amount of income tax expense Cascade  
23 is actually incurring. It is Public Counsel's position that 100 percent of the

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<sup>49</sup> Cascade Supplemental Response to Bench Request 1(D) (Jan. 29, 2018).

1 over-collection should be returned to ratepayers through either a separate mechanism or  
2 through a deferral to be returned to ratepayers at a future time.

3 **Q: Are you taking a position at this time regarding whether the treatment proposed by**  
4 **Cascade in its supplemental response to Bench Request 1 should be adopted?**

5 A: As previously indicated, I do agree that the revenue requirements resulting from this case  
6 should be calculated based on the 21 percent FIT rate currently in effect. With regard to  
7 the treatment of the excessive income taxes currently being collected in rates, and the  
8 appropriate treatment of the flow-back of the EDFIT, I am not taking a position at this  
9 time, except to recommend that 100 percent of the amount of income taxes being  
10 over-collected from ratepayers should be return to ratepayers and a regulatory liability  
11 should be established if amortization of EDFIT is not included in rates in this case.

12 The Company's supplemental response to Bench Request 1 was submitted  
13 January 29, 2018, which is less than three weeks before this testimony is being filed. The  
14 amounts presented by Cascade in its response have not been fully vetted and include  
15 some assumptions. Cascade's response also included several proposals regarding the  
16 treatment of the excess taxes currently being collected and the amortization of the EDFIT  
17 balances. The Company has not filed supplemental testimony thoroughly explaining its  
18 proposals.

19 Public Counsel will review the positions taken by the various parties in this  
20 proceeding, as well as Cascade's rebuttal testimony, and may cross examine witnesses at  
21 hearings on the impacts of the TCJA. However, if the Commission does not include the  
22 amortization of the EDFIT in the revenue requirements resulting from this case, I do  
23 recommend that the amortization be deferred as a regulatory liability and addressed in  
24 Cascade's next rate case.

1       **Q: Cascade indicates in its supplemental response to Bench Request 1(C) that the**  
2       **amortization of EDFIT has minimal impacts on rates or the outcome of this rate**  
3       **case. Is the impact of the EDFIT amortization minimal?**

4       A: No. As indicated above, using the Washington Plant allocation factor of 77.24 percent,  
5       the amounts presented by the Company would result in a \$1.7 million amortization of the  
6       protected portion of the EDFIT (\$2.19M x 77.24%) in 2018 and \$786,073 annual  
7       amortization of the non-protected portion (\$1,017,702 x 77.24%) on a Washington basis,  
8       or a combined amortization impact of approximately \$2.5 million. It is not clear why the  
9       Company contends that the amortization of the EDFIT “has minimal impacts on rates or  
10      the outcome of this rate case...” The Commission could consider including this annual  
11      amortization in rates in this case with the amortization period associated with the  
12      non-protected EDFIT beginning with the rate effective date from this case. The amount  
13      could then be subject to review in the next rate case, allowing more time to review the  
14      impacts, with a true-up in the next rate case. However, if the Commission opts to require  
15      Cascade to defer the impacts as a regulatory liability to the next rate case, then this case  
16      would not be impacted by the EDFIT amortization.

17      **Q: Does this conclude your direct testimony?**

18      A: Yes, it does.