

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

<p>WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,</p> <p style="text-align: center;">Complainant,</p> <p>v.</p> <p>CASCADE NATURAL GAS CORPORATION,</p> <p style="text-align: center;">Respondent.</p>	<p>DOCKET UG-220198</p> <p>ORDER 03</p> <p>REJECTING TARIFF REVISIONS</p>
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**BACKGROUND**

- 1 On March 24, 2022, Cascade Natural Gas Corporation (Cascade or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tariff WN U-3 that would, among other things: (1) set the amortization rate for an historical level of Protected-Plus Excess Deferred Income Tax (PP EDIT) prospectively; (2) establish a deferred balance of approximately \$3.3 million, which represents the amount Cascade claims has been over-refunded to customers; (3) reverse the current deferred protected Average Rate Assumption Method component and record it in the current federal income tax account; and (4) file an adjustment to the Company’s rate Schedule 581 to set the amortization to match the test year used in the Company’s most recent general rate case (GRC) in Docket UG-210755.
- 2 On March 29, 2022, the Commission issued a Notice of Intent to Consolidate and Notice of Bench Request.
- 3 On April 14, 2022, the Commission convened a status conference to discuss consolidating the tariff revisions in this Docket with the Company’s GRC in Docket UG-210755. Cascade opposed consolidation.
- 4 On April 18, 2022, the Commission suspended the tariff revisions in this Docket by Order 01 and issued a Notice of Prehearing Conference. On June 7, 2022, the Commission entered Order 02, Prehearing Conference Order, which established a procedural schedule and set the matter for hearing on November 17, 2022.

- 5 On August 23, 2022, the Commission issued Final Order 09 in Cascade’s GRC. In Final Order 09, the Commission distinguished Cascade’s historical PP EDIT filing in this Docket from the going-forward treatment of PP EDIT and directed Cascade to work collaboratively with the parties to resolve the proper going-forward treatment of PP EDIT in the context of the GRC proceeding.<sup>1</sup> On September 12, 2022, counsel for Commission staff (Staff) contacted the presiding officers to explain that the parties agreed to resolve the issues in this Docket through the compliance filing required by the Commission’s Final Order in Docket UG-210755.
- 6 On September 13, 2022, the procedural schedule was suspended at the parties’ request pending resolution of the compliance filing in Docket UG-210755.
- 7 On October 21, 2022, Cascade, Staff, the Alliance of Western Energy Consumers, and The Energy Project (the Parties) filed a signed PP EDIT Resolution Compliance Filing (Compliance Filing). Public Counsel takes no position on the Compliance Filing.
- 8 The Compliance Filing proposes the following as it relates to this Docket:<sup>2</sup>

- **Item 2:** To address the over-refund in the historical period, Cascade proposes to record a deferral on November 1, 2022, for the amount over-refunded to customers from August 1, 2018, through October 31, 2022. The deferral would be calculated by comparing the actual amount refunded to customers to the benefits that would have been provided to customers had the PP EDIT been included in base rates, thus avoiding a potential normalization violation. The amount to be deferred was \$3,268,293 as of August 31, 2022. The figure was expected to change by less than \$50,000 on October 31, 2022.

The deferred historical balance would accrue interest at the FERC interest rate and the Company would begin collecting the balance from customers beginning on April 1, 2023, over a three-year period. The expected impact is an increase of approximately \$0.24 per month for the average residential customer using 57 therms per month.

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<sup>1</sup> *WUTC v. Cascade Natural Gas Corporation*, Docket UG-210755, Order 09 ¶ 181 (Aug. 23, 2022).

<sup>2</sup> The Compliance filing also included (1) Item 1, a proposal to set the amortization for the PP EDIT prospectively until the conclusion of Docket UG-210755, which is no longer necessary, and (2) Item 4, a proposal to eliminate Rate Schedule 581 and move the PP EDIT back into base rates. Those proposals were addressed by separate Order 12 in Docket UG-210755.

- **Item 3:** Reverse the current year of deferred PP EDIT balance on October 31, 2022, thus treating the PP EDIT consistent with all other rate base items on a going forward basis. As of August 31, 2022, the deferred balance was a credit of \$1,190,099. It is not anticipated that the October 31, 2022, balance would change significantly from the August balance. The Parties represent that this proposal has no rate impact.
- 9 The Parties state that the Compliance Filing is a fair resolution of the treatment of historical PP EDIT. Upon Commission approval of the Compliance Filing, the Parties agree that the Company will move to withdraw its proposed tariff revisions in this Docket.

### DISCUSSION

- 10 We reject Cascade's proposed tariff revisions and the resolutions proposed by the Parties in Items 2 and 3 of Cascade's Compliance Filing in Docket UG-210755. Pursuant to RCW 80.04.130, a regulated company proposing changes to its tariff bears the burden of proof to show that any proposed rate increase is just and reasonable. As discussed below, Cascade failed to meet its burden of proving that its proposed treatment of historical revenues affected by the return of PP EDIT, which would result in a rate increase to customers, is just and reasonable. We address the Parties' proposals in turn.
- 11 First, we reject the Parties' proposal to retroactively defer the PP EDIT historical balance, which would accrue interest at the FERC interest rate, and allow the Company to begin collecting those amounts from customers beginning April 1, 2023, over a three-year period.
- 12 As a threshold matter, we find that the supporting workpapers contain insufficient information to evaluate this proposal. The workpapers reflect a PP EDIT balance of \$0 for the period between August 2018 and February 2020,<sup>3</sup> even though Cascade filed tariff revisions to true-up PP EDIT balances for that time period.<sup>4</sup> The Parties offer no explanation for excluding these PP EDIT true-up amounts from the historical balance calculation. Without these amounts, the Commission is unable to evaluate the accuracy of the proposed PP EDIT historical balance.
- 13 The Parties similarly fail to explain their departure from the Settlement Agreement approved in Docket UG-170929, which separated PP EDIT from accumulated deferred

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<sup>3</sup> Cascade PP EDIT Compliance Filing, Attachment A, summary tab.

<sup>4</sup> See Docket UG-200806 and Docket UG-210709.

income taxes and deferred it to account 254, Regulatory Liabilities, *without* accruing interest.<sup>5</sup> The Commission is unable to evaluate the parties' proposal to begin accruing interest on the historical revenues effected by the return of PP EDIT amounts without an explanation for this change.

- 14 In addition to these evidentiary deficiencies, we have serious concerns about authorizing Cascade to establish a retroactive accounting deferral that would be used to recapture amounts returned to customers as an offset to revenues. Accounting deferrals, by definition, delay for consideration in a future rate case the recognition of benefits and burdens to ratepayers that otherwise must be recognized in the period in which they occurred.<sup>6</sup> Because the Commission only authorizes deferrals on a going-forward basis from the date an accounting petition is filed,<sup>7</sup> there is no mechanism available to Cascade to achieve its goal of deferring revenues effected by the return of PP EDIT amounts from an historical period. To preserve its ability to recover PP EDIT billed credits, Cascade should have filed an accounting petition as soon as the discrepancy was discovered or, at the very least, at the same time it filed proposed tariff revisions in this Docket.<sup>8</sup>
- 15 The Parties also failed to provide citations to the Commission's authority to grant their request,<sup>9</sup> which would require persuasive evidence that collecting these amounts from ratepayers absent a timely filed accounting petition would not constitute retroactive ratemaking. Cascade's reliance on Puget Sound Energy's Private Letter Ruling (PLR) from the Internal Revenue Service (IRS) is not persuasive on this point. If Cascade

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<sup>5</sup> *WUTC v. Cascade Natural Gas Corporation*, Docket UG-170929 Order 06 ¶ 50-54 (July 20, 2018).

<sup>6</sup> Accounting deferrals are most often used for expenses that are extraordinary, nonrecurring, or material but has also been used to defer tax benefits to offset rate increases to the benefit of ratepayers, and limitedly for revenue, and investments.

<sup>7</sup> *In the Matter of the Petition of Puget Sound Energy For an Order Approving Deferral of Costs Associated with the COVID-19 Public Health Emergency*, Dockets UE-200780 and UG-220781, Order 01 ¶ 32 (Dec. 10, 2020).

<sup>8</sup> For example, Puget Sound Energy filed an accounting petition proposing to "track the amount of revenue it would have received if rates had been set using the methodology for passing back EDIT that PSE proposed." *In the Matter of the Petition of Puget Sound Energy For an Order Authorizing Accounting for Tracking of Revenues Subject to PSE's Private Letter Ruling Requesting a Decision on the Proper Ratemaking Treatment of Protected Excess Deferred Income Taxes*, Dockets UE-200843 and UG-200844 et al. (*Consolidated*), Order 14/11/09/01 ¶ 10 (Sept. 28, 2021).

<sup>9</sup> WAC 480-07-370(3).

wishes to seek recovery of PP EDIT billed credit amounts it believes were over-refunded to customers, the Company should request a PLR from the IRS specific to its circumstances rather than relying on a PLR that is neither binding on Cascade nor on the Commission with respect to Cascade.

16 Finally, we reject the parties' proposal to reverse the 2022 deferred PP EDIT balance as of October 31, 2022. Although the parties claim that this reversal has no impact on rates, they failed to provide any documentation to support their position, including an updated revenue requirement. Without the updated revenue requirement, the Commission is unable to validate this claim or otherwise evaluate the Parties' proposal.

17 Because the Parties requested the Commission cancel the evidentiary hearing set for November 17, 2022, the Commission was not afforded adequate time to adjudicate the proposed tariff revisions prior to the statutory deadline in the event the matter was not resolved concurrent with the Compliance Filing. Cascade failed to meet its burden of proof, thus barring timely resolution.

18 For the reasons explained above, the Commission rejects the proposed tariff revisions filed in this Docket.

### FINDINGS AND CONCLUSIONS

19 (1) The Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public services companies, including investor-owned natural gas companies.

20 (2) Cascade is a public service company regulated by the Commission providing service as a natural gas company.

21 (3) On March 24, 2022, Cascade filed proposed revisions to its currently effective Tariff WN U-3.

22 (4) On September 12, 2022, the Parties to this proceeding requested the Commission suspend the procedural schedule in this Docket and cancel the evidentiary hearing set for November 17, 2022.

23 (5) RCW 80.04.130 provides that a regulated company proposing changes to its tariff bears the burden of proof to show that any proposed rate increase is just and reasonable.

- 24 (6) The Parties failed to include PP EDIT true-up amounts from August 2018 to February 2020 in their historical balance calculation of PP EDIT.
- 25 (7) The Parties failed to include supporting documentation or an updated revenue requirement to support their proposal to reverse the 2022 deferred PP EDIT balance as of October 31, 2022.
- 26 (8) Cascade has not met its burden of proving that the proposed rate increase is just and reasonable.
- 27 (9) The Commission therefore rejects the proposed tariff revisions as not consistent with the public interest.

**ORDER**

**THE COMMISSION** Rejects Cascade Natural Gas Corporation's proposed tariff revisions filed in this Docket on March 24, 2022, and suspended by prior Commission order.

Dated at Lacey, Washington, and effective January 23, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVE W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner