

**Exh. DJP-1Tr
Docket UG-170929
Witness: David J. Panco**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**CASCADE NATURAL GAS
CORPORATION,**

Respondent.

DOCKET UG-170929

TESTIMONY OF

David J. Panco

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Pro Forma Plant Additions
Rate Case Costs and Pro Forma Compliance Department
Miscellaneous Charges and Removal of Rate Schedules*

February 15, 2018

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LIST OF EXHIBITS

- Exh. DJP-2 ~~Staff's Proposed Pro Forma Major Plant Additions~~Cascade's Response to Public Counsel Data Request No. 45
- Exh. DJP-3 Cascade's Response to UTC Staff Data Request No. 121
- Exh. DJP-4 Cascade's Response to Public Counsel Data Request No. 67(a)
- Exh. DJP-5 Compiled Annual Rate Case Costs
- Exh. DJP-6 Cascade's Response to Public Counsel Data Request No. 20

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is David J. Panco. My business address is 1300 S. Evergreen Park Drive
5 S.W., P.O. Box 47250, Olympia, WA 98504.

6

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

8 A. I am employed by the Washington Utilities and Transportation Commission
9 (Commission) as a Regulatory Analyst in the Energy Regulation Section of the
10 Regulatory Services Division. Among other duties, I am responsible for financial and
11 economic analysis, auditing of regulated companies, and providing support to
12 general rate cases.

13

14 **Q. How long have you been employed by the Commission?**

15 A. I have been employed by the Commission since November 2015.

16

17 **Q. Would you please state your educational and professional background?**

18 A. My formal education includes a Master of Business Administration and a Master of
19 Marine Affairs, essentially applied resource economics and public policy, both from
20 the University of Washington in 1989.

1 **Q. Would you please describe your relevant work experience?**

2 A. Relevant work experience includes bookkeeping and accounting for medium-sized
3 produce and seafood operations in the Pacific Northwest, Alaska, and New England
4 from 1980 through 1986, and various assignments from 1987 through 2008 with
5 Weyerhaeuser Company. These assignments included product development,
6 environmental project management, facility planning and risk management for major
7 manufacturing sites, and new venture development as part of the company's
8 corporate research and development efforts.

9

10 **Q. Would you please list any training you have received to help you carry out your**
11 **duties as a regulatory analyst?**

12 A. I completed New Mexico State University's rate case basics workshop in May 2016.

13

14 **Q. Have you previously submitted testimony to the Commission?**

15 A. I provided testimony in UE-161204 regarding proposed modification of Pacific
16 Power and Light's disconnection tariff and establishment of a stranded cost
17 methodology. I also prepared pre-submission analysis and draft testimony regarding
18 major capital projects for Cascade Natural Gas's 2015 general rate case (UG-
19 152286) and have provided documented analysis for affiliated interest, certificate of
20 public necessity and convenience, and tariff modification filings.

21

1 **II. SCOPE AND SUMMARY OF TESTIMONY**

2

3 **Q. Please describe the scope of your testimony.**

4 A. My testimony will address the company’s proposed adjustments for plant additions,
5 rate case costs, pro forma compliance department, and proposed tariff revisions.

6

7 **III. PRO FORMA PLANT ADDITIONS**

8

9 **Q. What are pro forma plant additions?**

10 A. Pro forma plant additions are new infrastructure projects completed subsequent to
11 the test year.¹

12

13 **Q. Please describe Staff’s standards for evaluating pro forma plant additions in**
14 **this case.**

15 A. Staff considers four questions when reviewing pro forma additions:

- 16 1. Is the new plant addition “major?”
17 2. Are the costs associated with the new plant known and measurable?
18 3. Is the new plant used and useful to serve Washington customers?
19 4. Are the costs incremental and not offset by other related factors?

20 If the answer to all four of the above questions is “yes,” then Staff generally supports
21 including the plant additions in rates.

¹ “Pro forma adjustments” give effect for the test period to all known and measurable changes that are not offset by other factors. The work papers must identify dollar values and underlying reasons for each proposed pro forma adjustment. WAC 480-07-510(3)(e)(iii).

1 **Q. What constitutes a “major” plant addition?**

2 A. The Commission has suggested that what constitutes a “major” plant addition
3 depends on the size of the rate base of the utility seeking the pro forma adjustment.²
4 The Commission recently found it reasonable to set the “major” addition threshold at
5 0.5 percent of a utility’s net plant in service, although it has also signaled that it does
6 not consider a given threshold as a bright line to be used in all circumstances.³

7
8 **Q. How did Staff define the thresholds for “major plant additions” in this case?**

9 A. Staff began with the Commission guidance just discussed. However, taking to heart
10 the Commission’s admonition to avoid bright line cutoffs with regard to pro forma
11 plant adjustments, Staff departs from the use of a percentage of rate base as the
12 metric for defining major additions. Natural gas local distribution companies
13 (LDCs), such as Cascade, invest in many small individual projects, such as main or
14 regulator replacements. This distinguishes them from electric utilities, where major,
15 high-dollar projects such as generating plants dominate the investment dollars. To
16 reflect this reality, Staff offers a broader notion of major, which defines that terms by
17 a percentage of the projects in a given period. Staff believes that this refinement will
18 allow for an improved, less restrictive, review of plant adjustments in this rate case. I
19 discuss this method in more detail below.

20

² *Wash. Utils. & Transp. Comm’n v. Avista Corp. dba Avista Utils.*, Dockets UE-150204 & UG-150205, Order 05, at 17 ¶¶ 40 (Jan. 6, 2016).

³ *See Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket UE-130043, Order 05, at 79 ¶¶ 198-99 (Dec. 4, 2013).

1 **Q. What costs are known and measurable?**

2 A. A utility incurs known costs when an event that causes a change in revenue, expense,
3 or rate base is *known* to have occurred during, or reasonably soon after, the historical
4 test year and the effect of that event will be in place during the rate effective period.⁴

5 A utility incurs measurable costs when the costs are concrete and quantifiable.⁵ A
6 cost is not measurable when it is an estimate, a projection, forecast, or some exercise
7 in judgment.⁶

8

9 **Q. When does Staff consider plant additions used and useful?**

10 A. Staff generally considers plant used and useful when it is in service and providing
11 benefit to Washington ratepayers before the rate effective period, which is usually
12 measured by the suspension date.⁷

13

14 **Q. How many pro forma plant additions did the company request?**

15 A. Mr. Parvinen submitted a spreadsheet that detailed 187 individual projects with his
16 initial testimony.⁸ For each project, Mr. Parvinen identified specifics such as the
17 project's function,⁹ project title, requested adjustment amounts, and a note that
18 referred to a separate "Explanation and Support" spreadsheet. Not all of the 187

⁴ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, 11-12 ¶ 26 (April 2, 2010).

⁵ *Wash. Utils. & Transp. Comm'n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-090134 & UG-090135 & UG-060518, Order 10, 21 ¶ 45, (Dec. 22, 2009).

⁶ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, 11-12 ¶ 26.

⁷ *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-090134 & UG-090134, Order 10, at 22 ¶ 48.

⁸ Parvinen, Exh. MPP-6 – Plant Additions.

⁹ Projects were divided into four different functions which corresponded to the categories found on the company's 2016 FERC Form 2.

1 identified projects, however, were applicable to Washington operations in this rate
2 case. Cascade itself excluded many projects, citing reasons such as having an
3 associated offsetting revenue, being outside the test year, or not having support for
4 the request. Ultimately, Cascade included ~~5960~~ projects as the pro forma request from
5 the company. Cascade's proposal included only projects projected to be completed
6 by the end of 2017. The total dollar request of these ~~5960~~ projects is about \$18.1
7 million, although Cascade offered to update the list on rebuttal with actual data.
8

9 **Q. Were all of the pro forma plant additions in service by the end of 2017?**

10 A. Not according to Cascade's response to Public Counsel Data Request 45. (Exh. DJP-
11 2). This response shows that as of November 30, 2017, Cascade completed some of
12 the projects included in its pro forma adjustment, but not others.
13

14 **Q. Did Cascade's answer to Public Counsel Data Request No. 45 provide any
15 additional information?**

16 A. Yes. The final costs for the listed projects differ from the estimates in testimony.
17

18 **Q. Using the previous method of identifying "major" plant additions, what would
19 have been the threshold and which requests would have met that criteria?**

20 A. The former methodology of using one half of one percent of the company's rate base
21 would have yielded a "major" threshold of \$2,346,750. Accordingly, only one

1 project would have qualified as “major,” the Kennewick Main project, with its cost
 2 of \$4,929,287.⁴⁰ Staff finds this an unreasonable result.

3
 4 **Q. How did Staff determine which projects met the “major” threshold?**

5 A. Staff took a different approach to this measure. Nearly always in a wide-spread
 6 selection of costs or projects, the top 20 percent of the projects will make up 80
 7 percent of the total cost. Staff considered this method as applicable to the type of
 8 projects in which an LDC must engage. Therefore, it examined for inclusion 12 of
 9 the ~~6059~~ proposed projects (roughly 20 percent). These projects sum to an estimated
 10 expenditure of \$13.8 million, or 76 percent of the total sought by Cascade. ~~However,~~
 11 ~~not all of the projects were in service as of November 2017, and the e_C~~ Costs were
 12 more or less than estimated, and totaled. ~~Of the 12 major projects, only nine were~~
 13 ~~completed, at a cost of \$7,524,903~~13,023,840, as identified in the Table 1 below.

TABLE 1

Project Description Per MPP-6	Cost per MPP-6 as revised in PC-45
1) FP-101192- Main Relo Repl - Washington	\$1,144,546
2) FP-302588 – Hildebrand Blvd 6” HP Main	\$1,560,305
3) FP-314964 MAOP Rpl 8” March Point 11C1144-1	\$230,693
4) FP-313621-Family Meter Replacement	\$666,649
5) FP-315894- 10,700 of 6” & 800’ 4” Reinforce Pasco	\$1,339,385
6) FP-311969 - Sensit Portable Methane Detectors	\$591,533
7) FP-101199 STD M&R Relo-Repl - Washington	\$672,426
8) FP-101275 Serv-Relo-Repl-Washington	\$1,160,369
<u>9) FP-101196 – R Sta-Relo-Repl-Washington</u>	<u>\$158,998</u>
<u>10) FP-315607 - RF; 6” Steel Main, Kennewick/Rich</u>	<u>\$4,795,619</u>
<u>11) FP-315709 – RP; Zillah 6” Tran</u>	<u>\$386,080</u>
<u>9)12) FP-315710 – Yew St., Pipe Replacement</u>	<u>\$317,237</u>
Total Major Pro Forma Plant Additions	<u>\$7,524,904</u>13,023,840

⁴⁰ ~~This particular project was not in service by November 2017 per Cascade’s response to Public Counsel Data Request 45 and is excluded from pro forma plant on that basis.~~

1 **Q. Do the ~~nine~~-twelve “major” projects meet the known and measurable as well as**
2 **the used and useful standards?**

3 A. The projects above were noted in the Company’s response to Public Counsel Data
4 Request 45 as completed and in service at the end of November 2017. For this
5 reason, Staff supports these ~~nine~~twelve projects as reasonable additions to rate base
6 in this general rate case.

7
8 **Q. What happens to all the projects other than the ~~nine~~-twelve major projects**
9 **identified in Table 1?**

10 A. The Commission has stated a preference for allowing only major plant additions
11 beyond the test year. The lesser additions will be included among actual per books
12 rate base in a future general rate case. This is regulatory lag at work and one reason
13 justifying equity returns in the ranges proposed by various parties.

14

15 **IV. RATE CASE COSTS AND PRO FORMA COMPLIANCE DEPARTMENT**

16

17 **Q. Please briefly describe Cascade’s proposed adjustment P-04, Rate Case Cost.**

18 A. The company’s proposed adjustment, which decreases net operating revenue by
19 \$194,033, “reflects the impacts of incremental costs associated with filing this general
20 rate case over what was booked in 2016 for the last general rate case, Docket No. UG-
21 152286.”¹¹ This figure is based entirely on estimated 2017 rate case costs as listed in
22 MPP WP-1.15 at tab “Rate Case Costs.”

¹¹ Parvinen, Exh. MPP-1T at 8:3-5.
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1 **Q. Please describe how staff attempted to analyze the company’s proposed**
2 **adjustment P-4, Rate Case Costs.**

3 A. Through discovery, staff sought to obtain known costs associated with the
4 company’s current and most recent prior cases and to establish a reasonable annual
5 cost for rate case activity. As filed, the case provided total actual costs for 2016, and
6 estimated costs incurred and to be incurred 2017.

7 Staff further attempted to differentiate between actual costs in 2016 that were
8 associated with UG-152286 and those associated with the current filing, and sought
9 to confirm the period over which costs associated with UG-152286 were being
10 amortized.

11
12 **Q. What was the result of that attempt?**

13 A. Staff found no amounts entered in FERC Account 928, Regulatory commission
14 expenses, during the period from 2013 through 2016. All of the invoices for rate
15 case costs provided through data requests were booked to FERC account 923,
16 Outside services employed, as shown in Cascade’s answer to Staff Data Request No.
17 121, which is Exhibit DJP-3. These invoice amounts represent only a portion of the
18 balance in FERC account 923.

19
20 **Q. What is the company’s purported reasoning in reflecting the total amount of**
21 **actual and projected rate case costs in this adjustment?**

22 A. The company states in response to Public Counsel Data Request 67(a) (Exhibit DJP-
23 4) that “it anticipates it will be filing another rate case shortly after the completion of

1 this docket.” It further states that, “based on projected capital spending requirements
2 over the foreseeable future,” it will “fil[e] annual rate cases so a reasonable
3 amortization [period] would be one year.”

4
5 **Q. Please describe staff’s proposed alternative analysis.**

6 A. Staff compiled the amounts of invoices provided in answer to Public Counsel Data
7 Request 67 and Staff Data Request 108, as provided in Exhibit DJP-5, to establish a
8 reasonable annual average of ongoing rate case costs from 2015 through 2017.

9
10 **Q. What is staff’s resulting recommendation with regard to Adjustment P-4?**

11 A. Staff recommends changing the adjustment to reflect the difference between annual
12 average rate case costs incurred and the amount booked to rate case costs in the test
13 year. The result is a reduction in net operating income of \$79,950.

14
15 **Q. Please describe your understanding of the company’s proposed adjust P-5 Pro
16 Forma Compliance Department?**

17 A. The company’s proposed adjustment appears to represent the salary and overhead
18 costs of three individuals, one director and two engineers, as incremental costs. The
19 proposed adjustment decreases net operating income by \$181,736.

20
21 **Q. With regard to MPP-1T, Page 8, lines 9-11, does “ensuring that Cascade is in
22 full compliance with all state and federal pipeline safety regulations and other
23 relevant requirements” represent a new task for Cascade Natural Gas?**

1 A. Although a new organization named “System Integrity/System Management” has
2 been put into place, the company describes the department’s tasks as “ensuring full
3 compliance with all state and federal pipeline safety regulations.” This is certainly
4 not a new set of responsibilities for which the company is only recently accountable.

5
6 **Q. How does the company describe this new organizational unit?**

7 A. In response to Public Counsel Data Request 20 (Exh. DJP-6), the company states:

8 The System Integrity Department was established February 2017 with the hiring
9 of a Director, System Integrity and moving two existing engineers from
10 Engineering Services to System Integrity. System Integrity took over activities
11 which were being performed by Engineering Services and Operation. The
12 System Integrity Department is primarily responsible for Distribution Integrity
13 Management Program (DIMP), Transmission Integrity Management Program
14 (TIMP), MAOP Validation, and Corrosion Control.

15
16 **Q. How many net new hires occurred in the System Integrity Department and
17 Engineering Services as a result of this reorganization?**

18 A. Two. Cascade made a new hire to fill the role of Corrosion Manger, and a newly
19 hired engineer in Engineering Services replaced the individuals who moved to the
20 newly formed System Integrity Department.

21
22 **Q. What changes do you provide to this adjustment?**

23 A. Staff’s proposed adjustment reduces the revenue requirement in consideration of the
24 offsetting savings to Engineering Services associated with the shift of tasks and
25 personnel. The company’s proposed salary and overhead levels are used, in
26 conjunction with provision of revenue required to add the two net new hires, one
27 manager and one mid-level engineer.

1 **Q. What effect do Staff's changes to proposed adjustment P-5, Pro Forma**
2 **Compliance Department, have on Cascade's revenue requirement?**

3 A. Staff's changes reduce the company's proposed decrease in net operating income by
4 \$52,671, to a decrease of \$129,065 in net operating income.

5

6 **V. MISCELLANEOUS CHARGE CHANGES AND REMOVAL**
7 **OF RATE SCHEDULES**

8

9 **Q. What miscellaneous charge changes does Cascade seek to make with its rate**
10 **case filing?**

11 A. The company proposes raising reconnection, disconnection, return check and pilot
12 light service charges that have been in place since 2007 and eliminating a new
13 premise charge for consistency with its new line extension policy approved in
14 Docket 160967.¹²

15

16 **Q. How did staff appraise the reasonableness of the company's proposed**
17 **miscellaneous charge changes?**

18 A. Staff attempted to compare the proposed changes to the approved charges for the
19 same or essentially similar services among other gas service providers in Washington
20 and Cascade's approved charges in their Oregon service territory.

21

¹² Gross, Exh. JGG-1T at 4:22-6:22.

1 **Q. Please describe your conclusions from that comparison.**

2 A. Staff concludes that the precise definition of services provided vary slightly among
3 providers and among jurisdictions, but that Cascade's proposed charges in this case
4 are generally similar to the charges for similar services from other providers and in
5 other jurisdictions. Staff concludes that the proposed changes result in outcomes that
6 are fair, just and reasonable.

7
8 **Q. What schedules does the company propose removing?**

9 A. The company proposes removing Schedule 512 Compressed Natural Gas Service
10 and Schedule 577 Limited Interruptible Service, and freezing Schedule 502 Building
11 construction Temporary Heating and Dry-Out Service with future customers for that
12 schedule served on Rate Schedule 503, Residential Rate Service.

13
14 **Q. What did staff find regarding these proposed changes?**

15 A. Staff found that the changes affect a de minimis number of customers and that the
16 schedules to which these few customers will be migrated are fair and reasonable.
17 Staff does not contest these tariff revisions.

18
19 **Q. Does this conclude your testimony?**

20 A. Yes.