Exh. MAC-1T
Docket UG-21____
Witness: Mark A. Chiles

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-21____

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF MARK A. CHILES

September 30, 2021

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Mark A. Chiles. My business address is 8113 W. Grandridge Blvd., Kennewick, Washington 99336-7166.

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

A. I am the Vice President of Regulatory Affairs and Customer Service of Cascade Natural Gas Corporation ("Cascade" or "Company") and Intermountain Gas Company ("Intermountain"), and the Vice President of Customer Service for Montana-Dakota Utilities. In this capacity, I am responsible for the leadership, planning, and execution of all regulatory and customer service activity for the Company.

Q. How long have you been employed by Cascade?

A. I began my utility company career with Intermountain in 1992 and in January 2013 was appointed Vice President and Controller for Cascade and Intermountain. In March 2016 I was appointed into my current position with the Company.

Q. What are your educational and professional qualifications?

A. I graduated from Boise State University with a BBA in Accounting. I am a licensed Certified Public Accountant in the State of Idaho and a member of the American Institute of Certified Public Accountants and the Idaho Society of Certified Public Accountants.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony in this docket?

A. My testimony will cover several areas. First, I will provide specific details on Cascade's proposed limited issue rate case filing. Second, I will address the Company's request for end of period rate base treatment. Third, I will discuss the longer-term effect of this proposed rate case on our customers.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I am sponsoring the following exhibits:

Exh. MAC-2	Monthly Operating Reports, 2015-2020
Exh. MAC-3	Monthly Operating Reports, 2021.

III. LIMITED ISSUE RATE CASE PROPOSAL

Q. Please describe what Cascade means by a limited issue rate case.

A. The proposed limited issue rate case filing is intended to significantly reduce the number of issues normally addressed in a full general rate case. Cascade is proposing to update its test year with 2020 actual costs which will bring in all used and useful 2020 plant additions. The 2020 test year was selected because it is the most recent, appropriate, and supportable period to represent the period in which rates will be in effect. The Company has also adjusted its debt cost for a known 2022 debt acquisition and made one pro forma adjustment to include known and measurable 2021 wage increases. The remainder of the presentation reflects Cascade's implementation of the Commission's final order in Docket UG-200568. Some of the major assumptions resulting from that order include a hypothetical capital structure representing 49.1

percent equity and 50.9 percent debt, a return on equity of 9.40 percent, the removal of executive incentives from the revenue requirement, the use of a five-year rolling average incentive payment normalization for non-executive employees, spreading the rate change on an equal percentage margin across customer classes, and improving the presentation of the results of operations. These assumptions are all reflected in Company witness Maryalice Gresham's testimony

Q. Why is the Company proposing this limited issue rate case?

A. Cascade is proposing this limited issue filing as a stop gap measure to help reduce the regulatory lag primarily caused by its 2020 capital investments and to bridge the gap to complete a comprehensive rate case either late in 2022 or 2023. That comprehensive rate case will implement the Commission's new multiyear rate plan requirement, include a cost of service study ("COSS") developed using Cascade's then-completed load study, include an assessment and modification to Cascade's low-income program known as the Washington Energy Assistance Program, and provide an evaluation of Cascade's decoupling mechanism.

Q. Can you describe the major items that are intended to limit the scope of the proposed fling?

A. Yes. The Company is proposing to use the authorized rate of return that was approved in Docket UG-200568 with no change in capital structure but with a slight decrease in debt costs, as described in greater detail by Company witness Tammy Nygard in her Direct Testimony, Exh. TJN-1T. The Company is proposing to use actual costs incurred in 2020 with pro forma adjustments only for 2021 union and non-union wage increases, in addition to Cascade's more traditional interest synchronization, and MAOP deferral amortization pro forma adjustments. The Company is not adjusting for its most significant cost increase in 2021, which is capital additions.

This rate case does not include a COSS, and Cascade will instead file its load study on or before September 21, 2022, pursuant to the Commission's order in Docket UG-200568. That load study will support the COSS in Cascade's next general rate case.

Q. Does the limited issue rate case include a multiyear rate plan?

A. No. On May 3, 2021, the Washington State Legislature passed Engrossed Substitute Senate Bill 5295 to transform the regulation of gas and electrical companies toward multiyear rate plans and performance-based rate making. This new statute, codified as RCW 80.28.428, provides that after January 1, 2022, every general rate case filing of a natural gas or electric company must include a multiyear rate plan proposal.

Because this general rate case is filed before January 1, 2022, the Company is not obligated to file a multiyear rate plan with this proceeding. More importantly, the Company anticipates that the Commission will provide clarity and certainty to utilities and other stakeholders on the details of a multiyear rate plan pursuant to the legislative directive contained in ESSB 5295, 2021 c 188 § 1:

> To provide clarity and certainty to stakeholders on the details of performance-based regulation, the utilities and transportation commission is directed to conduct a proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making, including performance measures or goals, targets, performance incentives, and penalty mechanisms.

Therefore, the Commission and other stakeholders will undoubtedly provide valuable guidance prior to the Company's next general rate case. Cascade supports the efforts by the State to provide and promote alternatives to traditional cost of service rate making, and Cascade looks forward to filing its first multiyear rate plan with the benefit of such insight.

Q. Why is the Company not filing a full general rate case?

A. The Company's proposal is an attempt to significantly reduce the necessary time involved in processing a full general rate case. As an offset to simplifying the rate case, Cascade is requesting early implementation of rates to help mitigate the regulatory lag the Company is experiencing.

Q. Can you elaborate on the litigation timeline?

A. Since all costs included in the rate case are actual costs incurred in the test year, calendar year 2020, except for the 2021 wage increases, the Company is requesting an expedited hearing schedule to accommodate an earlier rate effective date. Cascade believes this is reasonable because all costs for which it is seeking rate recovery are fully known and were incurred at least one year prior to the proposed rate effective date.

Q. What is the Company proposing regarding the effective date of its proposed rates?

A. Cascade is proposing two options for a rate effective date. First, Cascade is requesting a compressed hearing schedule to accommodate an effective date eight months from the filing date. Alternatively, Cascade is proposing that, should this rate case be resolved through settlement, then rates pursuant to an approved stipulation be effective April 1, 2022.

Q. Why is the Company proposing April 1, 2022 as an implementation date?

A. For several reasons. First, there is a significant temporary surcharge currently in place that expires on April 1, 2022 for a portion of the costs associated with the 2019 Enbridge Pipeline Explosion. The impact of the increase related to this filing would be offset by the reduction of the temporary surcharge resulting in little or no change in current rates to sales customers. Second, the limited number of issues should reduce the amount of time required to review the rate case proposal, which should lead to a greater opportunity to more quickly reach a settlement. Third, all costs including the pro forma wages would be incurred for a minimum of a year prior to an April 1, 2022 effective date.

Q. What is the Company proposing if a settlement is not reached in time to achieve a rate effective date of April 1, 2022?

A. The Company is requesting an accelerated rate schedule to accommodate new rates no later than eight months after the filing date of the case.

IV. END OF PERIOD ("EOP") RATE BASE TREATMENT

Q. Why is EOP rate base treatment necessary and appropriate in this case?

A. Cascade is continuing to invest heavily in crucial infrastructure upgrades and regulatory lag is a key driver in the Company's ongoing under-earning. In its Final Order in Docket UG-200568, the Commission found that EOP rate base treatment is necessary and appropriate where a company's ongoing capital investments would otherwise result in underearning, and to better match a company's rates to its rate year expenses during the period the rates will be in effect.[1] Here, both factors strongly support Cascade's need for EOP rate base treatment.

In addition, if the Company used the Average of Monthly Averages ("AMA") approach, then only 1/12 of plant entering service in December of the 2020 calendar test period ("Test Year") would be included in rate base. Cascade's primary construction season begins in the summer months which results in many projects being completed in late fall and thus being placed into service late in the fourth quarter. This new plant will be used to serve customers for the entirety of the rate effective year despite the fact it was placed in service late in the Test Year.

Q. Are you including an exhibit that demonstrates Cascade's ongoing and consistent underearning?

A. Yes. The first exhibit to my Direct Testimony, Exh. MAC-2, presents the monthly operating reports for the 12 months ending in December of each year for 2015-2020. These reports show that Cascade's unadjusted results of operations are consistently well below Cascade's authorized rate of return ("ROR"). Likewise, the chart below shows the achieved rate of return for the 12 months ending in December of each year, as well as the authorized ROR for each of those years. These results are based on the Commission Basis Report ("CBR") and include adjusted net operating income ("NOI") and rate base calculated on an AMA basis.

[1] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05 at ¶ 166 (May 18, 2021), quoting *WUTC v. Puget Sound Energy*, Dockets UE-190529 and UG-190530, Final Order 08 at ¶ 228 (July 8, 2020) ("The Commission continues to view EOP rate base as one of many tools available to address regulatory lag when a sufficient showing has been made that, absent the use of EOP rate base, a utility will experience losses.").

Table 1: Results of Operations[2]

Year	2015	2016	2017	2018	2019	2020
Authorized	8.85%	7.35%	7.35%	7.31%	7.31%	7.24%
ROR	5.73%	6.83%	6.39%	6.58%	5.89%	6.17%

As Table 1 shows, despite the fact that Cascade has completed four general rate cases since 2015, its actual earnings have resulted in an earned ROR that continues to be well below its authorized ROR.

Q. When the March 2020 and July 2021 rate changes are factored in, has Cascade been earning its ROR?

A. No. Despite the rate increase that went into effect early in 2020, Cascade's operation reports show that the Company has been underearning, achieving an ROR of only 5.87 percent through 2020, even with ten months of revenues that include the rates approved in Cascade's 2019 rate case. The second exhibit to my Direct Testimony, Exh. MAC-3, provides the monthly operating reports for June 2021, which is the most current report filed with the Commission. This report contains a full year impact of the 2019 rate case. The rate of return, using an Average of Monthly Average Rate Base, is 5.63 percent. The rate change effective July 2021 will only exacerbate the continued underearning trend.

Q. Does the use of EOP rate base eliminate all regulatory lag?

A. No. Using EOP helps, but does not eliminate, regulatory lag. This is evident by reviewing the operating report for December 31, 2020, which includes ten months of increased revenue from the 2019 rate case. A major factor in ongoing regulatory lag

[2] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05 at ¶ 168 Table 3 (May 18, 2021).

is the Company's necessary and substantial capital investments. As noted above, Cascade is continuing to invest heavily in crucial infrastructure upgrades and will continue to do so through 2026.[3] Cascade also expects that it will experience lag in other areas, notably with respect to its 2022 union and non-union wage increases which will be effective before the conclusion of this proceeding.

Q. What was Cascade's total plant investment in 2020 which is driving the request for end of period rate base treatment?

A. Plant in service increased by nearly $90 million in 2020. This amount is net of retirements and removals. This figure is more than $63 million above the annual depreciation expense thus creating significant cost pressures. The amount is more than $60 million above the plant in service included in Cascade's last general rate case plus the annual Cost Recovery Mechanism ("CRM") effective November 1, 2020.

Q. How much of the 2020 investment was recorded and went into service in December 2020?

A. Just over $40 million was recorded and went into service in December 2020. It is very typical given the construction season is in the summer, that projects are completed and go into service late into the fourth quarter.

Q. Is inflation a factor in the request for EOP rate base treatment?

A. Yes. As illustrated in the following chart, inflation has grown rapidly over the past 12 months from 1.32 percent in August 2020 to 5.20 percent in August 2021. As AWEC

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[3] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Kivisto, Exh. NAK-2T, 11:7-9 (noting that Cascade's capital budget for Washington-based projects is $75 million in 2021).

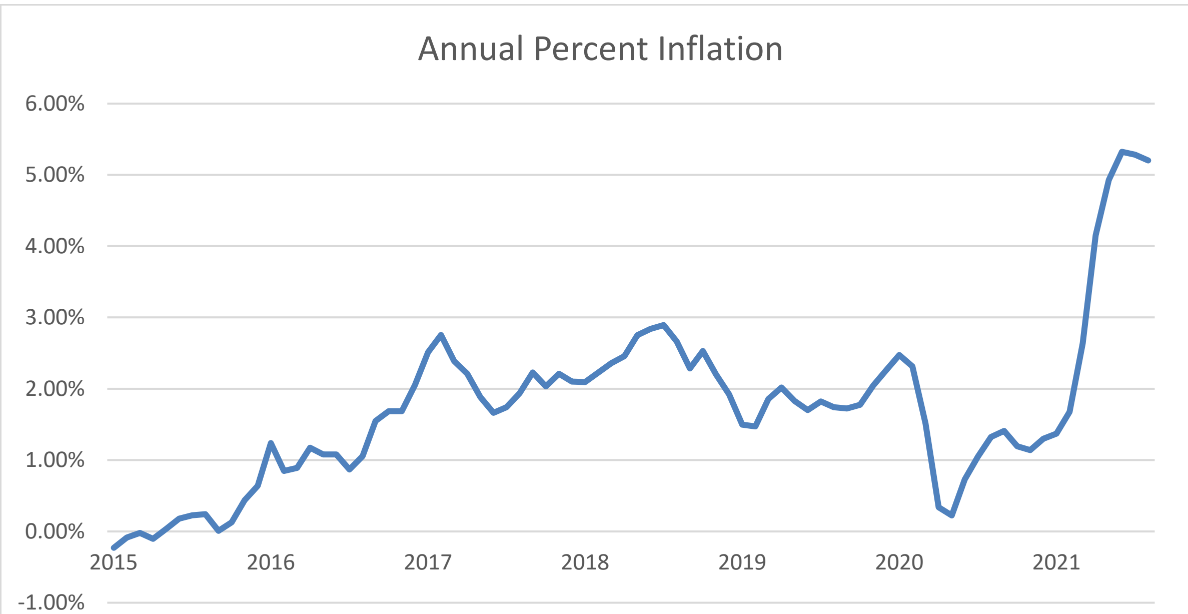
witness Bradley Mullins noted in reference to the Pacific Power 2014 GRC Order, the Commission discussed four criteria under which EOP treatment may be appropriate:

a. Abnormal growth in plant;

b. Inflation and/or attrition;

c. Significant regulatory lag; or

d. Failure of the utility to earn its authorized ROR over a historical period.[4]



Source: Federal Reserve Board, CPI for All Urban Consumers

With the current period of steep inflationary pressure, Cascade has demonstrated an impact from all four of the criteria identified by the Commission as appropriate circumstances under which EOP treatment may be appropriate.

[4] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05, ¶ 155 (May 18, 2021), citing Response Testimony of Bradley G. Mullins, Exh. BGM-1T at 21:8-16.

V. RATE IMPACTS ON CUSTOMERS

Q. Please discuss the implication of this rate increase on customers given other rate filings Cascade has made.

A. Cascade recognizes that it is requesting a significant increase, and the Company anticipates that the other annual filings that are proposed to go into effect November 1, 2021 will also result in increased rates to customers. The other annual filings include the Purchase Gas Adjustment (PGA), Decoupling, EDITS (protected and unprotected), Conservation, Low-Income and the CRM. The Company is concerned with multiple increases in rates; however, the 2020 capital expenditures and increased operating costs necessary to provide safe and reliable service have created significant regulatory lag and under earnings, and Cascade must seek recovery. However, based on what is known now, on November 1, 2022 core customers will actually be paying less than they are today even if this limited issue rate case is approved.

Q. Can you elaborate further or demonstrate how customers would be paying less than they are today?

A. Yes. For example, the current rate Schedule 503 (residential) margin rate is $0.31274 per therm. The customers are currently paying a surcharge of $0.14931 above the margin rate to recover deferred gas costs. Therefore, the current rate is $0.31274 plus $0.14931 for a total of $0.46205. With the effect of this filed case, customers would pay an additional $0.05652 for a total of $0.51857. By November 1, 2022, the temporary surcharge of $0.14931 will be zero, leaving residential customers with a rate of $0.36926, which is significantly less than the current rate of $0.46205 per therm.

Q. If a settlement is reached as Cascade anticipates, what would a residential customer be paying after the proposed rate increase?

A. Cascade is proposing an April 1, 2022, effective date if a settlement can be reached. Of the $0.14931 deferred gas cost amortization identified above, $0.07615 is set to expire on April 1, 2022. The net change to a residential customer's bill if the current limited issue rate case goes into effect on the same date as the surcharge expires is actually a reduction of $0.01963 per therm. If rates were to go into effect on April 1, 2022, customers would see a decrease in their bills because of the net effect of the temporary surcharge being eliminated at the same time the limited issue rate case rates would go into effect.

Q. Does the same hold true for the Schedule 663 transportation customers?

A. No. Transportation customers do not purchase their gas supply from Cascade and therefore are not paying any of the deferred gas surcharge that are currently in place for sales customers. Transportation customers will see the full impact of this case when rates go into effect.

Q. Does this conclude your testimony?

A. Yes, it does.