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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I. INTRODUCTION

Q. Please state your name and business address.

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

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

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

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

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

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

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

Q. Would you please describe your relevant work experience?

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

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

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

Q. Have you previously submitted testimony to the Commission?

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

II. SCOPE AND SUMMARY OF TESTIMONY

Q. Please describe the scope of your testimony.

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

III. PRO FORMA PLANT ADDITIONS

Q. What are pro forma plant additions?

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

Q. Please describe Staff's standards for evaluating pro forma plant additions in this case.

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

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

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

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[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).

Q. What constitutes a "major" plant addition?

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

Q. How did Staff define the thresholds for "major plant additions" in this case?

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

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[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).

Q. What costs are known and measurable?

A. A utility incurs known costs when an event that causes a change in revenue, expense, or rate base is *known* to have occurred during, or reasonably soon after, the historical test year and the effect of that event will be in place during the rate effective period.[4] A utility incurs measurable costs when the costs are concrete and quantifiable.[5] A cost is not measurable when it is an estimate, a projection, forecast, or some exercise in judgment.[6]

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

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

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

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

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[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.

identified projects, however, were applicable to Washington operations in this rate case. Cascade itself excluded many projects, citing reasons such as having an associated offsetting revenue, being outside the test year, or not having support for the request. Ultimately, Cascade included 59~~60~~ projects as the pro forma request from the company. Cascade's proposal included only projects projected to be completed by the end of 2017. The total dollar request of these 59~~60~~ projects is about $18.1 million, although Cascade offered to update the list on rebuttal with actual data.

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

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

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

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

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

A. The former methodology of using one half of one percent of the company's rate base would have yielded a "major" threshold of $2,346,750. Accordingly, only one project would have qualified as "major," the Kennewick Main project, with its cost of $4,929,287.~~[10]~~ Staff finds this an unreasonable result.

Q. How did Staff determine which projects met the "major" threshold?

A. Staff took a different approach to this measure. Nearly always in a wide-spread selection of costs or projects, the top 20 percent of the projects will make up 80 percent of the total cost. Staff considered this method as applicable to the type of projects in which an LDC must engage. Therefore, it examined for inclusion 12 of the ~~60~~59 proposed projects (roughly 20 percent). These projects sum to an estimated expenditure of $13.8 million, or 76 percent of the total sought by Cascade~~. However, not all of the projects were in service as of November 2017, and the c~~ Costs were more or less than estimated, and totaled ~~. Of the 12 major projects, only nine were 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
9) FP-101196 – R Sta-Relo-Repl-Washington	$158,998
10) FP-315607 - RF; 6" Steel Main, Kennwick/Rich	$4,795,619
11) FP-315709 – RP; Zillah 6" Tran	$386,080
~~9)~~12) FP-315710 – Yew St., Pipe Replacement	$317,237
Total Major Pro Forma Plant Additions	$~~7,524,904~~13,023,840

~~[10] 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.~~

Q. Do the ~~nine~~ twelve "major" projects meet the known and measurable as well as the used and useful standards?

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

Q. What happens to all the projects other than the ~~nine~~ twelve major projects identified in Table 1?

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

IV. RATE CASE COSTS AND PRO FORMA COMPLIANCE DEPARTMENT

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

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

[11] Parvinen, Exh. MPP-1T at 8:3-5.

Q. Please describe how staff attempted to analyze the company's proposed adjustment P-4, Rate Case Costs.

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

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

Q. What was the result of that attempt?

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

Q. What is the company's purported reasoning in reflecting the total amount of actual and projected rate case costs in this adjustment?

A. The company states in response to Public Counsel Data Request 67(a) *(*Exhibit DJP-4) that "it anticipates it will be filing another rate case shortly after the completion of this docket." It further states that, "based on projected capital spending requirements over the foreseeable future," it will "fil[e] annual rate cases so a reasonable amortization [period] would be one year."

Q. Please describe staff's proposed alternative analysis.

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

Q. What is staff's resulting recommendation with regard to Adjustment P-4?

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

Q. Please describe your understanding of the company's proposed adjust P-5 Pro Forma Compliance Department?

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

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

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

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

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

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

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

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

Q. What changes do you provide to this adjustment?

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

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

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

V. MISCELLANEOUS CHARGE CHANGES AND REMOVAL OF RATE SCHEDULES

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

A. The company proposes raising reconnection, disconnection, return check and pilot light service charges that have been in place since 2007 and eliminating a new premise charge for consistency with its new line extension policy approved in Docket 160967.[12]

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

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

[12] Gross, Exh. JGG-1T at 4:22-6:22.

Q. Please describe your conclusions from that comparison.

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

Q. What schedules does the company propose removing?

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

Q. What did staff find regarding these proposed changes?

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

Q. Does this conclude your testimony?

A. Yes.