

Exhibit No. __ (MPP-1T)
Docket No. UG-15____
Witness: Michael P. Parvinen

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,
Respondent.

DOCKET UG-15____

**CASCADE NATURAL GAS CORPORATION
DIRECT TESTIMONY OF MICHAEL P. PARVINEN**

December 1, 2015

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I. INTRODUCTION

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

2 A. My name is Michael P. Parvinen. My business address is 8113 W. Grandridge Blvd.,
3 Kennewick, Washington 99336-7166. My e-mail address is
4 michael.parvinen@cngc.com.

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

6 A. I am employed by Cascade Natural Gas Corporation (Cascade or Company) as the
7 Director of Regulatory Affairs. In this capacity, I am responsible for the management
8 of all economic regulatory functions at the Company.

9 **Q. How long have you been employed by Cascade?**

10 A. I have been employed by Cascade since September 2011. Prior to joining Cascade I
11 was employed by the Washington Utilities and Transportation Commission (WUTC
12 or Commission) for nearly 25 years. I was employed as a Regulatory Analyst, later
13 as a Deputy Assistant Director, and lastly as the Assistant Director of the Energy
14 Section.

15 **Q. What are your educational and professional qualifications?**

16 A. I graduated from Montana College of Mineral Science and Technology in May of
17 1986, with a Bachelor of Science degree in Business Administration with an
18 emphasis in accounting.

19 I have testified numerous times before both the WUTC and the Public Utility
20 Commission of Oregon (OPUC). I have also analyzed or assisted in the analyses of
21 numerous other utility rate filings, and participated in many utility rulemaking
22 proceedings before the WUTC. Finally, I attended the Seventh Annual Western
23 Utility Rate Seminar in 1987 and the 1988 Annual Regulatory Studies Program,
24 sponsored by the National Association of Regulatory Utility Commissioners.

25

II. SCOPE AND SUMMARY OF TESTIMONY

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

2 A. My testimony will cover two primary areas. First, I will address the revenue
3 requirements and supporting calculations. Secondly, I will present Cascade's
4 approach to its proposed basic charges for residential and commercial customers.

5 **Q. Are you sponsoring any exhibits in this proceeding?**

6 A. Yes. I am sponsoring the following exhibits, which are described in my testimony:

7 Exhibit No. __ (MPP-2) Results of Operation Summary Sheet

8 Exhibit No. __ (MPP-3) Revenue Requirement Calculation

9 Exhibit No. __ (MPP-4) Conversion Factor Calculation

10 Exhibit No. __ (MPP-5) Summary of Proposed Adjustments to Test Year
11 Results

III. REVENUE REQUIREMENT AND RATE REQUEST PROPOSAL

12 **Q. Please summarize the results of the proposed revenue requirements for the**
13 **Washington jurisdiction.**

14 A. After taking into account all proposed adjustments, the rate of return (ROR) is 5.65
15 percent, as shown in Exhibit No. __ (MPP-2). The incremental revenue necessary to
16 achieve the recommended ROR of 7.65 percent is \$10,514,548, also shown in Exhibit
17 No. __ (MPP-2). The calculation of the incremental revenue is also provided in
18 Exhibit No. __ (MPP-3). The overall base revenue increase requested is 4.17 percent.

19 **Q. Please describe the contents of Exhibit No. __ (MPP 2).**

20 A. The figures shown in column (1) are the actual Washington booked figures for the
21 test year, which is the twelve months ended June 30, 2015. Column (2) is the
22 summation of all adjustments, both restating and pro forma, to achieve the pro forma
23 results of operation. Each adjustment that is included in column (2) is identified
24 separately in Exhibit No. __ (MPP-5), and will be described later in my testimony.

25 Column (3) is the sum of columns (1) and (2) and represents the expected results of

1 operations in the rate year absent any rate change. Column (4) identifies the proposed
2 revenue change and the net income impact of the revenue increase. The proposed
3 revenue increase is also calculated in Exhibit No. __ (MPP-3). Column (5) is the
4 results of operation expected during the rate year with proposed rates.

5 **Q. What is the Company's proposed test year for this case?**

6 A. Cascade has selected the twelve months ended June 30, 2015 as the test period. This
7 12-month period is the most recent complete period for which Cascade has data
8 available to perform its analysis and is most representative of the costs that will be
9 incurred by the Company in the rate year.

10 **Q. Please describe the contents of Exhibit No. __ (MPP-3).**

11 A. Exhibit No. __ (MPP-3) shows the calculation of the proposed revenue increase of
12 \$10,514,548 necessary to achieve the proposed rate of return of 7.65 percent.

13 **Q. Would you please describe Exhibit No. __ (MPP-4)?**

14 A. Exhibit No. __ (MPP-4) shows the calculation of the conversion factor which is
15 applied to the required net income to produce the required revenue increase. The
16 conversion factor takes into account revenue-sensitive items that change as revenue
17 changes, including uncollectibles, Commission fees, Washington Business and
18 Operating (B&O) tax, and federal income taxes. The conversion factor is calculated
19 to be 0.62311.

20 **Q. Please describe Exhibit No. __ (MPP-5).**

21 A. Exhibit No. __ (MPP-5) shows each of the Company's proposed adjustments,
22 culminating in the total column shown in column (2). The Company is proposing
23 three restating adjustments and seven pro forma adjustments.

24 **Q. Can you please briefly provide a definition of restating and pro forma**
25 **adjustments?**

1 A. Yes. A restating adjustment is an adjustment to the actual booked operating results to
2 a basis acceptable for ratemaking. A pro forma adjustment is a known and
3 measurable change beyond the test year that is not offset by other factors.

4 Cascade is proposing two restating adjustments, identified as R-1 through R-3
5 in Exhibit No. __ (MPP-5), and seven pro forma adjustments identified as P-1 thru P-
6 7

7 **Q. Would you describe each of the adjustments included in Exhibit No. __ (MPP-
8 5)?**

9 A. Yes. The first column, column (R-1), entitled “Weather Normalization Adjustment”
10 is an adjustment to the test period results to reflect customer usage given normal
11 weather.

12 **Q. Can you describe the methodology Cascade used in the calculation?**

13 A. Cascade used the most recent thirty-year period of weather data from Snyder Electric
14 as compiled from the National Oceanic and Atmospheric Administration using a 60
15 heating degree day (HDD). The thirty-year data is the period 1981 through 2010.
16 Cascade also applied the last five years of actual usage compared to actual weather
17 using a single regression analysis. The result is an increase in net income of
18 \$3,642,550.

19 **Q. Continue with the description of the adjustments in Exhibit No. __ (MPP-4).**

20 Column (R-2), entitled “Promotional Advertising Adjustment” removes advertising
21 costs more aimed at promoting the company brand or image rather than conservation
22 or safety. The result is an increase in net income of \$44,138.

23 Column (R-3), entitled “Restate Revenues” removes from revenue amounts
24 that are out of period or will not be realized in the rate year. Examples are bill
25 corrections, net unbilled revenues, deferral revenues, etc. The result of this
26 adjustment is a decrease in net income of \$666,359.

1 Column (P-1), entitled “Interest Coordination Adjustment” adjusts federal
2 income taxes for the effect of the average debt rate used to calculate the rate of return
3 applied to the proposed rate base shown in Exhibit No MPP-1, column (3), line 27.
4 The result is a decrease in net income of \$50,507.

5 Column (P-2), entitled “Pro Forma Wage Adjustment” has three components.
6 The first component is the annualization of the 2015 increases granted on January 1,
7 2015 for non-union employees and April 1, 2015 for union employees. The second
8 component layers on the 2016 wage increases for non-union and union employees.
9 The non-union increase is estimated to be 3 percent but won’t be known until
10 sometime in December. The Company will update the calculation to reflect the actual
11 non-union increase awarded at a later date. The union increase is 3.1 percent
12 effective April 1 and is based on the contract.

13 The third component is a reflection of seven months of the 2017 union wage
14 increase. It is anticipated that the rate year will include seven months of the effects of
15 the known and measurable 2017 union contract increase of 3.1 percent. The result is
16 a decrease in net income of \$692,171.

17 Column (P-3), entitled “AC Survey Pro Forma Adjustment” reflects a change
18 in the company’s Atmospheric Corrosion (AC) Survey program. Cascade has been
19 using contractors to perform AC Survey work but has chosen to move the program in
20 house. This change was made in the course of our negotiations with the union of our
21 latest contract, and will provide more control of the work, and better tracking of
22 information. This adjustment decreases net income by \$56,083.

23 Column (P-4), entitled “Pro Forma Plant Additions” reflects the Company’s
24 budgeted level of capital additions expected to go into service by the expected
25 effective date of the current filing, November 1, 2016. The proposed projects are
26 limited to only those projects that increase the reliability of Cascade’s system. These

1 are non-revenue producing upgrades and have no material offsetting factors. As the
2 cost and timing of these projects is budgeted at this point, Cascade will update the
3 actual costs and standing of each project as the case proceeds. The intent is add into
4 rate base only those projects that will be used and useful by the time rates from the
5 current proceeding go into effect. The net income effect of the rate base additions,
6 for depreciation expense and property taxes, is a decrease of \$431,051. The rate base
7 impact is an increase of \$17,396,629.

8 Column (P-5), entitled “Rate Case Costs” reflects the impacts of incremental
9 costs associated with filing this general rate case normalized over a two year period.
10 These costs will be updated later in the case as they become known and better
11 estimated. The net income impact is a decrease in net income of \$146,250.

12 Column (P-6), entitled “CRM investments 7/1 to 10/31/15” adds investment
13 included in the most recent annual Cost Recovery Mechanism (CRM) that is beyond
14 the test period (UG-151155). Cascade also adds the revenue associated with the rates
15 approved in the latest CRM filing. The revenue component is included in the
16 adjustment in column (P-6). The result of these adjustments and all effects of the
17 latest approved CRM, are included in this filing. This adjustment decreases net
18 income by \$86,982 and increases rate base by \$4,981,631.

19 Column (P-7), entitled “Pro Forma Revenue” adjusts weather normalized
20 volumes to the most current rates. Included in this adjustment is the annualization
21 effect of the most current CRM rates and the most current special contract rates. This
22 adjustment is further described in the testimony of Ms. Pamela J. Archer. This
23 adjustment increases net income by \$741,335.

24 **Q. Can you explain the difference between adjustments P-6 and P-7?**

1 A. Yes. First, \$33,752 is associated with pro forming the special contracts. The
2 remaining difference of \$404,948 is the regulatory lag that exists with the CRM
3 process.

4 **Q. Please elaborate.**

5 A. Even though the CRM significantly reduces the regulatory lag associated with safety
6 related investment, a certain amount of regulatory lag still exists. In this case the
7 regulatory lag is quantified. The CRM investment is included in the booked results
8 through June 30, but the book revenues are lagging by over a year.

9 **Q. Is Cascade recommending that the Commission take any further actions to**
10 **address this remaining the regulatory lag?**

11 A. No.

IV. BASIC CHARGE RECOMMENDATION

12 **Q. Please explain why Cascade is proposing to hold basic charges constant?**

13 A. Cascade believes in promoting the direct use of natural gas for heating homes and
14 water. Cascade realizes that customers who choose to use natural gas will also be
15 electricity customers, and for that reason, will have two energy bills to pay each
16 month regardless of usage. To alleviate the impact to customers of paying two
17 energy bills, Cascade proposes to continue using a low basic charge and volumetric
18 heavy rate design.

19 **Q. Why is it appropriate for the Company's rate structure to support the direct use**
20 **of natural gas?**

21 A. There are two primary reasons. First, direct use of natural gas is much more efficient
22 than using natural gas to produce electricity. Second, supporting the direct use of
23 natural gas indirectly supports energy conservation by decreasing electricity usage.
24

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V. LOW-INCOME DISCUSSION

2 **Q. Is the Company proposing a change to its funding level for low income bill**
3 **assistance?**

4 A. No.

5 **Q. Please explain.**

6 A. In 2014, for the first time since low income funding was made available as part of
7 UG-060256 rate case, the community action agencies actually spent the allocated
8 funds of \$800,000 per year. However, because the agencies so significantly
9 underspent allocated funds in the past, , there is still a balance of \$500,000 available
10 for future low income assistance. For this reason, we are not proposing an increase.

11 **Q. What would Cascade propose going forward?**

12 A. Cascade is currently providing the lowest level of funding for assistance of the
13 utilities. Cascade believes the need exists for additional funding, and is willing to
14 step up to meet that need. However, first, the implementation of the agencies'
15 programs must be improved. Cascade has met with the agencies recently to see what
16 can be done to make the program better. While nothing specific was agreed upon, the
17 conversation and process has started to take place.

18 **Q. If specific improvements are identified would Cascade agree to increase funds**
19 **available for the program?**

20 A. Absolutely. Cascade hopes that conversations with the agencies will continue and an
21 agreement will be reached prior to the conclusion of this proceeding so funding can
22 be directly included.

23 If a consensus isn't reached by the conclusion of this case Cascade will
24 continue to work with the agencies until consensus is reach, at which point Cascade
25 would increase funding either in a rate case or as a tariff adder, depending on timing.

VI. EXPEDITED RATE CASE DISCUSSION

1 **Q. Did Cascade recently file for an increase in rates based on its annual**
2 **Commission Basis Report filed under WAC 480-90-257?**

3 A. Yes. It was assigned Docket No. UG-151309.

4 **Q. What was the outcome of that docket?**

5 A. The filing was considered by the Commission at the August 27, 2015, Public
6 Meeting. At that time, the Commission concluded that it was unwilling to approve
7 the Company's proposed increase without further process. In particular, the
8 Commission expressed concern over two primary areas: the rate of return requested
9 and the fact that it had been a number of years since the Company had filed a general
10 rate case. Given these concerns Cascade withdrew the request.

11 **Q. Does Cascade have comments regarding the proposed approach given its current**
12 **filed case?**

13 A. Yes. The company appreciates the Commission's concerns about its filing in UG-
14 151309. However, the Company continues to believe that there is considerable merit
15 to basing relatively small (less than 3 percent) rate increases on the Commission
16 Basis Report (CBR). The outcome of a more expedited approach should be similar to
17 the outcome of a general rate case, but with significant less cost and effort.

18 **Q. Can you elaborate on what you mean by the statement that the outcome would**
19 **be similar to the outcome of a general rate case?**

20 A. Yes. It is really a matter of timing. In a general rate case the results of operation are
21 fully pro formed. Eventually the pro formed results will be actual booked results and
22 would be the basis for expedited review thus providing the same result. The timing
23 would be lagged versus a general rate case.

24 **Q. Some parties have expressed the concerns that due process could be undermined**
25 **by an expedited process. Does Cascade have a response to this concern?**

1 A. First, an expedited approach would not do away with the need for general rate cases.
2 Utilities will always need to file general rate cases to update rate base. However, due
3 to the limited scope parties can either rely on the Staff review or, as was the case in
4 Docket UG-151309, the parties can be provided all information shared in the review.
5 Much like any other tariff filing the parties will need to priorities their level of
6 involvement and can respond accordingly at the open meeting where the Commission
7 can take any concerns into account.

8 The goal is not to circumvent due process but rather add a tool or alternative
9 approach to the cumbersome and costly full rate making process.

10 **Q. Does this conclude your testimony?**

11 A. Yes it does.