Exhibit No. __ (MPP-2Tr)
Docket No. UG-200568
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-200568

CASCADE NATURAL GAS CORPORATION

REBUTTAL TESTIMONY OF MICHAEL P. PARVINEN

January 8, 2021

Revised February 26, 2021

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I. INTRODUCTION

Q. Are you the same Michael P. Parvinen who filed direct testimony in Exhibit MPP-1T as part of Cascade Natural Gas Corporation's ("Cascade" or the "Company") initial filing ("Initial Filing")?

A. Yes, I am.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your Rebuttal Testimony?

A. My testimony is organized as follows:

- First, I describe the Company's new proposals to offset near-term customer rate impacts.
- Second, I respond to Washington Utilities and Transportation Commission ("Commission") Staff witness Mr. Chris McGuire and the Alliance of Western Energy Consumers ("AWEC") witness Mr. Bradley G. Mullins concerning the Company's request for end-of-period ("EOP") rate base treatment as a means of mitigating regulatory lag and under-earning.
- Third, I explain that Commission policies support recovery of the Company's updated list of pro forma capital projects, all of which are prudent, in service, and used and useful. This section of my testimony also responds to arguments concerning the Company's pro forma capital projects raised by Staff witnesses Mr. McGuire and Mr. David J. Panco, and Public Counsel witness Mr. Mark E. Garrett.
- Fourth, I explain that the Company is appropriately crediting customers with benefits associated with the Tax Cuts and Jobs Act ("TCJA").

Q. Are you sponsoring any exhibits in this proceeding?

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

Exhibit No. __ (MPP-3)	2015-2020 Monthly Operating Reports
Exhibit No. __ (MPP-4)	2019 Operating Report
Exhibit No. __ (MPP-5)	Retirement and Removal Calculation

Exhibit No. __ (MPP-6) Protected EDIT Accounting Detail

III. OFFSET PROPOSALS

Q. In its Rebuttal Testimony, has Cascade worked to reduce the customer impacts of this case?

A. Yes. Cascade had initially hoped that economic hardship from the pandemic would have lessened significantly by the time rates take effect in May 2021. Unfortunately, it now appears that economic recovery may be slower than anticipated. As a result, Cascade has redoubled its efforts to limit rate impacts on customers by reducing the requested cost of equity, continuing to scrutinize whether capital projects can be delayed, and reducing labor costs. Cascade has also developed offsetting proposals to mitigate near-term customer impacts.

Q. Please describe these rate mitigation proposals.

A. Cascade's Rebuttal Filing seeks a rate increase of approximately $7.4 million, or 2.82 percent. Cascade proposes two substantial changes that, together, can completely mitigate near-term rate impacts for most customers. First, Cascade proposes to accelerate the remaining 8 years of the 10-year amortization period for Cascade's unprotected excess deferred income taxes ("EDIT") to just 12 months following the rate effective date, which could offset approximately $5 million of Cascade's proposed rate increase. The original 10-year amortization schedule was approved in docket UG-170929,[1] which was based on the amortization period proposed in all jurisdictions in which Cascade and its affiliates operate. However, since that time, many commissions,

[1] *Washington Utilities & Transportation Commission v. Cascade Natural Gas Corp.*, Docket UG-170929, Order 06 at ¶¶ 52, 54 (July 20, 2018).

including the Public Utility Commission of Oregon ("OPUC"), have approved other amortization periods. For instance, the OPUC authorized a 5-year amortization schedule.[2] Thus, Cascade's proposal in this case would not jeopardize alignment with other states and would increase the customer rate credit in the near term.

Second, if the final revenue requirement increase granted in this case exceeds the unprotected EDIT offset described above, then Cascade proposes to extend the amortization of increased gas costs associated with the Enbridge pipeline explosion. Currently, this amortization allows the Company to recover increased gas costs over a three-year period from residential and commercial customers. The current amortization recovery is approximately $18 million per year, and the end of the amortization period is currently March 31, 2022. Extending the amortization by an additional year could reduce the impact to customers by over $9 million. Cascade proposes extending this recovery period as necessary to offset the balance of Cascade's approved rate increase for residential and commercial customers.

IV. EOP RATE BASE TREATMENT

Q. While Staff does not contest Cascade's EOP rate base proposal (Adjustment R-4), Staff nonetheless claims that Cascade failed to carry its burden to prove that EOP rate base treatment is warranted.[3] AWEC similarly argues that Cascade fails to "provide any justification" for EOP rate base, proposing a $2.3 million revenue

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[2] *In the Matter of Cascade Natural Gas Corporation, Application for a General Rate Revision*, Oregon Public Utility Commission, Docket UG 347, Order No. 19-088 at 9 (Mar. 14, 2019).
[3] Staff Response Testimony of Chris R. McGuire, Exh. CRM-1T at 13.

requirement reduction.[4] **Do you agree that Cascade failed to support the need for EOP rate base in this case?**

A. No. Staff's and AWEC's conclusion assumes that Cascade provided "no testimony or evidentiary support for its use of EOP rate base."[5] However, EOP rate base treatment is appropriate where a utility has demonstrated a need to reduce regulatory lag, and to more accurately reflect a company's rate base during the rate effective period.[6] The Commission has found that EOP rate base is appropriate under any of the following conditions: (a) abnormal plant growth; (b) inflation and/or attrition; (c) to mitigate regulatory lag; and/or (d) under-earning over a historical period.[7]

Here, Cascade's evidentiary support made clear that, without EOP rate base and the proposed pro forma adjustments offsetting regulatory lag, the Company will significantly under-earn in the rate year.[8] Cascade also explained that it is continuing to invest heavily in needed infrastructure investments.[9] Thus, Cascade's Direct Testimony clearly supported the need for EOP rate base treatment.

That said, Cascade recognizes that it did not explicitly dedicate a separate portion of testimony to the need for EOP rate base. Cascade took this approach both (1) because the need to mitigate regulatory lag through EOP rate base overlaps with the need to mitigate regulatory lag through pro forma adjustments, which was already

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[4] AWEC Response Testimony of Bradley G. Mullins, Exh. BGM-1T at 21, 23.
[5] McGuire, Exh. CRM-1T at 13.
[6] *Washington Utilities & Transportation Commission v. Puget Sound Energy*, Docket UE-190529 *et al*, Order 08 at ¶ 78 (July 8, 2020) (applying EOP rate base to "present a more accurate, end-of-year valuation of rate base that better reflects the rate base value in the rate effective period").
[7] *Washington Utilities & Transportation Commission v. Pacific Power & Light Co.*, , Dockets UE-140762 *et al*, Order 08 at ¶ 145 (Mar. 25, 2015).
[8] Direct Testimony of Maryalice C. Peters, Exh. MCP-1T at 2-3.
[9] Direct Testimony of Michael P. Parvinen, Exh. MPP-1T at 5.

clearly addressed,[10] and (2) because the Company did not anticipate that the request for EOP rate base treatment would be controversial. This latter expectation was based, in part, on the fact that Cascade previously proposed EOP rate base treatment in the Company's last general rate case (Docket UG-190210), where the proposal was not contested.[11] Indeed, in the Company's prior general rate case (Docket UG-170929), the Commission specifically suggested using EOP rate base to mitigate regulatory lag.[12]

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

A. As I note above, 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 rate year expenses.[13] For example, if the Company used the Average of Monthly Averages ("AMA") approach, then only 1/12 of plant entering service in December of the 2019 calendar test period ("Test Year") would be included in rate base—despite the fact that this new plant will be used to serve customers for the entirety of the rate effective year. Here, both factors strongly support Cascade's need for EOP rate base treatment. Cascade is continuing to invest heavily in crucial infrastructure upgrades and regulatory lag is a key driver in the Company's ongoing under-earning.

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[10] Parvinen, Exh. MPP-1T at 4-6.
[11] *See Washington Utilities & Transportation Commission v. Cascade Natural Gas Corporation*, Docket UG-190210, Exhibit MPP-1T at 5-12 (Mar. 29, 2019) (describing the basis for EOP rate base treatment).
[12] Docket UG-170929, Order 06 at ¶ 37.
[13] Dockets UE-190529 *et al*, Order 08 at ¶ 228 ("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.").

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

A. Yes. Exhibit No. __ (MPP-3) presents the monthly operating reports for the 12 months ending in December of each year for 2015-2019, along with the reports for October 2020 and November 2020.[14] The chart below shows the rate of return ("ROR") for the 12 months ending in December of each year (except for 2020, which shows the 12 months ending in November).[15] These results include net operating income ("NOI") and rate base on an AMA basis.

Table 1: Results of Operations[16]

Year	2015	2016	2017	2018	2019	2020
ROR	5.01%	5.70%	6.45%	6.70%	5.54%	5.81%

As Table 1 shows, despite the fact that Cascade has completed three general rate cases since 2015, earnings have remained well below the authorized rate of return.

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

A. No. EOP helps but does not eliminate regulatory lag. This is evident by reviewing the latest operating report for November 30, 2020 which includes nine months of increased revenue from the previous rate case. A major factor in ongoing regulatory lag 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 2021.[17] Cascade also expects that it will experience lag in other areas,

[14] The October and November reports will be filed shortly after this testimony is filed.
[15] The report for the 12 months ending November 30, 2020, was the most recent report available at the time of filing.
[16] Parvinen, Exh. MPP-3.
[17] Kivisto, Exh. NAK-2T at 11 (noting that Cascade's capital budget for Washington-based projects is $75 million in 2021).

notably with respect to its 2021 union wage increases. Though it is a virtual certainty that there will be an increase to union wages in 2021, Cascade has removed it from the case because the precise amount is unknown.

Q. Staff witness Mr. McGuire states that Cascade is not under-earning, and states that the Company's restated Test Year ROR was 8.01 percent.[18] Is this correct?

A. No. Staff appears to misunderstand the implications of the Company's Test Year earnings in two respects. First, Staff's calculation did not use the Company's actual 2019 net operating revenues, and therefore significantly overstated the Company's actual earnings (8.01 percent rather than the actual 5.56 percent).[19] Second, while Staff applied Cascade's Test Year adjustments to earnings, Staff failed to account for the Company's corresponding (and substantial) cost increases reflected in the pro forma adjustments—including major capital investments and necessary compensation increases. When these cost increases are properly accounted for, Cascade is not coming close to earning its authorized ROR.

Indeed, the fact that removing the Company's pro forma adjustments yields a significantly higher overall earnings level demonstrates that, where possible, Cascade has successfully contained its operating and maintenance ("O&M") costs. In fact, in 2019, Cascade added nearly $50 million of new investment, nearly double its depreciation expense in 2019—demonstrating an even greater containment of costs for

[18] McGuire, Exh. CRM-1T at 11.

[19] Staff appears to calculate 8.01 percent by dividing the Company's Test Year Adjusted Total Net Operating Revenues by total rate base on an AMA basis. *See* Supplemental Direct Testimony of Maryalice C. Peters, Exh. MCP-8 (row 18, column 3; row 24, column 1). In contrast, Cascade appropriately calculated its Test Year earnings by using actual 2019 Net Operating Revenues (row 18, column 1) divided by total rate base on an AMA basis (row 24, column 1).

customers' benefit than the results of operations show. Were it not for Cascade's ongoing need to pursue significant infrastructure investments in a high-risk investment environment, as well as the need to provide fair and reasonable compensation increases, a rate increase would not be required.

Q. Has Cascade been earning its ROR for 2020, even accounting for the March 2020 rate increase?

A. No. Despite the rate increase early in 2020, Cascade's operation reports show that the Company has been underearning, achieving an ROR of only 5.81 percent through the month of November, which includes nine months of the rate year in Cascade's last rate case.[20]

Q. Public Counsel states that regulatory lag need not be minimized because the associated recovery risks are built into the Company's authorized return on equity ("ROE").[21] Do you agree?

A. No. As explained in more detail by Ms. Ann E. Bulkley, the authorized ROE for regulated gas utilities assumes that companies will have a reasonable and timely opportunity to recover prudently incurred costs.[22] In addition, Public Counsel has proposed a return on equity in this case that is far below industry average and does not address the risk of regulatory lag associated with modified historical test periods in Washington.

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[20] Parvinen, Exh. MPP-3 at 7. The accounting for December 2020 has not fully closed as of this testimony, meaning that the final ROR for calendar year 2020 is not yet available.
[21] Public Counsel Response Testimony of Mark E. Garrett, Exh. MEG-1T at 9.
[22] Bulkley, AEB-4 at 120.

Contrary to Public Counsel's suggestion that the Commission should ignore Cascade's regulatory lag, the Commission has recognized the need to employ flexible and innovative ratemaking tools to reduce regulatory lag[23]—a toolkit made more flexible by the legislature's recent revisions to the used-and-useful standard. Because Cascade's actual results of operations consistently show significant underearning despite filing repeated rate cases, Cascade is now requesting that the Commission reduce Cascade's regulatory lag by allowing the pro forma adjustments and EOP rate base proposed in this case.

Q. While Public Counsel supports the use of EOP rate base, it describes this treatment as an alternative "middle ground" to allowing the Company's pro forma capital projects to be included in rates.[24] Do you agree with this approach?

A. No. Again, Public Counsel's recommendation appears to be rooted in an assumption that significant regulatory lag is not detrimental, and that the Company can simply offset these concerns with its depreciation expense and cost of capital. As shown by the revenue requirement calculations of Ms. Maryalice C. Gresham,[25] EOP rate base treatment, on its own, is insufficient to address regulatory lag and prevent the Company from under-earning when it is making significant capital expenditures.

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[23] Dockets UE-190529 *et al*, Order 08 at ¶¶ 76-77.
[24] Garrett, Exh. MEG-1T at 11.
[25] Please note, Ms. Gresham filed Direct Testimony in this proceeding under her former name, Maryalice C. Peters. *See* Rebuttal Testimony of Maryalice C. Gresham, Exh. MCG-11T at 1 (explaining that Ms. Gresham's name has changed).

V. PRO FORMA CAPITAL PROJECTS

A. Pro Forma Policies

Q. Please summarize Cascade's initial request for recovery of pro forma capital projects.

A. Cascade initially sought recovery of 15 discrete pro forma projects totaling $43.4 million,[26] and three categories of blanket funding projects totaling $22.7 million.[27] Collectively, the Company's pro forma capital projects were expected to increase rate base by $64,780,798.[28]

Q. Has Cascade updated its recovery request for pro forma capital projects?

A. Yes. As explained in more detail by Mr. Darras in Rebuttal Testimony, Cascade has delayed four of the discrete projects until 2021—three deliberately and one due to delays in obtaining needed easements.[29] A fifth discrete project was completed with a change in scope that caused it to fall below Cascade's major projects threshold, and was therefore removed from the Company's rate request.[30] The remaining 10 discrete projects (totaling $39.3 million) and the blanket projects (totaling $17.9 million), are complete and were placed in service by December 31, 2020.[31] Each of these projects is "major" for Cascade, representing a significant capital investment of more than $120,000.

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[26] Direct Testimony of Patrick C. Darras, Exh. PCD-1T at 11-68; Darras, Exh. PCD-2.
[27] Peters, Exh. MCP-6; *see also* Rebuttal Testimony of Patrick C. Darras, Exh. PCD-3T at 16-17 (summarizing the various blanket project categories).
[28] Parvinen, Exh. MPP-1T at 5.
[29] Darras, Exh. PCD-3T at 4-5.
[30] Darras, Exh. PCD-3T at 4.
[31] Darras, Exh. PCD-3T at 3.

Q. Does Cascade's revised proposed pro forma adjustment represent 100 percent of its 2020 capital budget, as AWEC states?[32]

A. No. As I explained in my Direct Testimony, approximately $30 million of originally proposed 2020 investment was not included in the Company's cost-recovery request.[33]

Q. What is your understanding of the Commission's standard for allowing recovery of pro forma investments?

A. The "Commission's long-standing practice is to set rates using a modified historical test year with post-test year adjustments following the used and useful and known and measurable standards while exercising the considerable discretion these standards allow in the context of individual cases."[34] In addition, the Commission has indicated that it will exercise greater flexibility to reduce regulatory lag for those companies struggling with chronic under-earning.[35]

Q. Has the Commission recently expanded on its policies concerning permissible post-test year adjustments?

A. Yes. In January 2020, the Commission issued a policy statement on property that becomes used and useful after the rate effective date ("Policy Statement").[36] The Commission emphasized that it retained flexibility to consider pro forma adjustments

[32] Mullins, Exh. BGM-1T at 30.
[33] Parvinen, Exh. MPP-1T at 9.
[34] *Washington Utilities & Transportation Commission v. Avista Corp. dba Avista Utilities*, Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 35 (Jan. 6, 2016).
[35] Dockets UE-150204 and UG-150205, Order 05 at ¶ 62 (noting that, in addition to attrition adjustments, "the Commission has been open to and employed other mechanisms to address regulated utility contentions of earnings deficiency").
[36] *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement (Jan. 31, 2020).

on a case-by-case basis, that its policies are not "prescriptive," and that companies can seek recovery of post-test year "programmatic" investments.[37] These changes responded to 2019 legislation amending the state's used-and-useful statute, RCW 80.04.250, and granting the Commission discretion to include in rates property that is "used and useful for service in this state *by or during the rate effective period*."[38] As a result of this legislation, the Commission has noted that pro forma adjustments beyond the test period are "no longer 'exceptional.'"[39]

Q. Is Cascade seeking recovery of both specific (i.e., discrete) and programmatic (i.e., blanket) pro forma projects?

A. Yes. The three blanket project types are (1) regulator station growth and gas meters, (2) services for growth, and (3) mains for growth.

Q. Do the blanket pro forma projects included in this case represent all of the blanket projects in the Company's capital budget?

A. No. Cascade specifically selected these three blanket funding projects because they collectively represent a significant amount of investment. In addition, because each category is related to customer growth, it is possible to identify and account for the offsetting benefits associated with these projects. To be clear, and as discussed in more detail below, not all of the projects in these categories generate revenue, but Cascade nonetheless includes revenue from new customers as an offsetting benefit for blanket pro forma projects.

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[37] Docket U-190531, Policy Statement at ¶ 31.
[38] RCW 80.04.250(2) (emphasis added).
[39] Docket UE-190529 *et al*, Order 08 at ¶ 113.

Q. Staff notes that the Commission's recent Policy Statement "primarily addresses property which becomes used and useful *after* the rate effective date."[40] Is the Commission's Policy Statement also relevant to projects placed in service *before* the rate effective date?

A. Yes. This Policy Statement addressed both "provisional" pro forma adjustments (those entering service after the rate effective date in a rate case) and "traditional" pro forma adjustments (those entering service after the historical test year but before the rate effective date).[41] Moreover, it would be illogical to assume that pro forma projects placed in service *after* the rate effective date would receive more lenient treatment than projects placed in service *before* the rates take effect. Cascade's filing includes only "traditional" known and measurable pro forma adjustments, both specific and programmatic, with a cut-off date that precedes the rate effective date in this docket by over four months. Therefore, this case allows the Commission to more timely include Cascade's traditional pro forma capital projects in rates without having to address the additional complexities associated with provisional pro forma projects.

Q. Please respond to AWEC's claim that Cascade's existing rates already compensate Cascade for four projects that were included in its initial filing in the 2019 rate case.[42]

A. AWEC is incorrect that these projects are already included in Cascade's rates. The 2019 rate case was resolved by a settlement that expressly stated,

[40] Staff Testimony of David J. Panco, Exh. DJP-1T at 8 (emphasis original).
[41] Docket U-190531, Policy Statement at ¶ 34.
[42] Mullins, Exh. BGM-1T at 24-26.

> The Parties do not agree on the specific adjustments necessary to reach the agreed-upon increase to revenue requirement, except as otherwise specified in this settlement. Accordingly, no plant investment is deemed to have been included in or excluded from the agreed upon revenue requirement. The Parties (other than Cascade) retain the right to challenge in future proceedings the recovery of investments not yet explicitly included in rates.[43]

In the Joint Testimony supporting the settlement, Staff stated, "from Staff's perspective, the $6.5 million increase represented significant reductions to expenses and pro forma plant adjustments relative to the Company's original request."[44]

The settlement in the 2019 rate case provides no basis for AWEC's claim that these specific projects were included in rates as a result of that case. And as Staff's portion of the Joint Testimony noted, the revenue requirement included in the settlement—although a "black box" number—reflected a significant reduction from the Company's initial request, and from Staff's perspective was attributable in part to a reduction in the amount for pro forma plant included in the Company's initial filing.

In addition, AWEC's proposal removes the identified investments twice from this case—doubling the size of its adjustment—first as an arbitrary removal of plant never included in rates in the last general rate case, and then again by removing the investment as not yet in service in this case.

Q. Staff criticizes the Company's request as not meeting the Commission's policy guidelines because Cascade has not requested a future review or refund request.[45] Is this criticism warranted?

[43] Docket UG-190210 Joint Settlement Agreement at ¶ 8 (Sept. 20. 2019).
[44] Docket UG-190210, Joint Testimony in Support of Settlement, Exh. JT-1T at 13.
[45] McGuire, Exh. CRM-1T at 32.

A. No. There is no need for an additional review period as all materials necessary to review prudence of the Company's projects have been provided through Cascade's Initial Filing and through data requests. As explained further below, the only pieces of information missing at the time of the parties' responsive testimony were actual in-service dates for discrete projects and final cost figures. Actual in-service dates and costs are now known and included in Rebuttal Testimony, and this information is subject to discovery, examination at hearing, and briefing. Therefore, there is no need for a provision for further review or refund.

B. Evidentiary Support

Q. Staff argues that Cascade "intends to make its case on rebuttal" to support pro forma projects.[46] Is this correct?

A. No. Consistent with WAC 480-07-510(3), Cascade presented evidentiary support for all of its pro forma projects in its Initial Filing, including the Direct Testimony and supporting exhibits of both Mr. Darras (Exh. PCD-1T) and Ms. Gresham (Exh. MCP-1T). The testimony referenced by Staff indicates that Cascade committed to "provide *updates*" on rebuttal for both "the actual capital investment for the 2020 projects and actual number of customers as of the end of 2020."[47] This is not "making its case on rebuttal" it is simply updating the numbers and in-service dates. The supporting documentation for prudence purposes was provided in the Company's direct case and

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[46] *Id.* at 24.
[47] Parvinen, Exh. MPP-1T at 9 (emphasis added); *see* Exh. CRM-1T at 24 (citing Exh. MPP-1T at 9:5-6).

through various data responses. These numbers are now final and available for all parties' review.

Q. Staff argues that Cascade's pro forma plant adjustment "only exists on paper" because "[t]he overwhelming majority of the projects" were not in service when Staff's Reply Testimony was filed.[48] Do you agree that the Commission requires pro forma projects to be placed in service before other parties file responsive testimony?

A. No. My understanding is the Commission has not adopted a rule requiring pro forma projects to be 100 percent complete before Staff files responsive testimony, in order for those projects to qualify for cost recovery. While Staff points to prior examples where projects were in service by that time, the Commission has repeatedly explained that it has substantial flexibility to consider pro forma capital proposals.[49] Moreover, Staff itself cites a recent instance in which the Commission approved recovery of pro forma projects where additional costs were incurred after Staff filed responsive testimony.[50] Clearly, no "bright line" exists.

Q. Did Cascade also provide updates to parties regarding the status of its pro forma capital projects through discovery?

A. Yes. Cascade responded to the parties' data requests regarding the pro forma capital projects over the course of this proceeding.

Q. Did Cascade identify and correct certain discrepancies in the discovery process?

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[48] McGuire, Exh. CRM-1T at 17.
[49] Docket U-190531, Policy Statement at ¶ 31.
[50] Panco, Exh. DJP-1T at 8.

A. Yes. Cascade recently identified and corrected the source of certain discrepancies in its data responses that concerned certain projects' in-service dates. In the process of preparing Rebuttal Testimony, Cascade came to understand the Company's engineering and accounting teams were characterizing certain projects' in-service dates differently. For engineering, a project is in-service when it enters operation because it is then used and useful for the benefit of customers. For accounting, a project's in-service date is tied to finalizing invoices and submitting final "as-built" design documents—meaning that the accounting team's in-service dates sometimes lag behind those for engineering. Upon identifying the discrepancy, Cascade quickly supplemented its responses to reflect the engineering in-service dates. This issue has now been fully resolved.

Q. Did Staff have the necessary information to conduct a prudence review of the pro forma projects?

A. Yes. From a substantive perspective, Staff possessed all of the information necessary to evaluate the prudence of the Company's projects when Staff filed Reply Testimony. The only aspects of these projects that remained subject to change were final costs and specific in-service dates. As noted above, final costs need not be available in order to allow for recovery of pro forma projects. As was stated in the Company's Direct Testimony, only those projects that were actually completed and placed in service by year-end 2020 are being sought for inclusion in rates. Cascade has now confirmed that all pro forma projects included in Cascade's updated cost recovery request are now in service.

Q. Is Staff factually correct that only $6.9 million worth of pro forma capital projects were in service by the end of September 2020?

A. No. Staff's calculation did not include any of the Company's pro forma blanket project investments, nor several other discrete capital projects that had already entered service. The actual amount of capital investment associated with in-service pro forma projects before parties filed response testimony was $28.2 million.[51] This issue is discussed in more detail in the Rebuttal Testimony of Mr. Darras.

Q. Is Staff's focus on the amount of plant in service by September 2020 misleading?

A. Yes. Staff's focus on the share of plant in service before it filed testimony inaccurately suggests that the Company was far behind in its projected development schedule. This is incorrect and overlooks the seasonal nature of project development, while also ignoring the level of blanket project investment previously placed in service. As discussed in more detail by Mr. Darras (Exh. PCD-3T at 21-22), the bulk of Cascade's project work must be performed in the summer, due to weather constraints. This means that most of Cascade's capital projects will unavoidably enter service in the latter third of the calendar year. Therefore, the timing of projects' in-service dates does not necessarily reflect delay or poor planning, but in many cases is merely a natural part of the project development cycle. Rather than being "grossly out of step" with the Company's total anticipated capital project development, as Staff suggests, the Company was merely in the final phase of completing many different projects—

[51] Cascade Rebuttal Testimony of Patrick C. Darras, Exh. PCD-3T at 22 (presenting total plant in service by the end of October 2020, 19 days before parties filed response testimony).

meaning that the "in-service" category was still relatively small.[52] Notably, only one discrete capital project was delayed involuntarily, due to delays in obtaining necessary easements. The other three delayed projects were postponed either intentionally to reduce rate impacts, or to maximize efficiencies by coordinating with other project development.[53] All of the Company's remaining pro forma projects were completed in 2020.

Q. Staff compares the Company's net capital investment of $19.6 million as of the end of September 2020 to the Company's initial capital investment recovery request of $66 million.[54] Is this an appropriate comparison?

A. No. Comparing net investment to the Company's initial capital investment recovery request is inappropriate because the net investment amount is offset by ongoing depreciation. Instead, the appropriate comparison is to *gross* investment. Thus, Staff's approach is an apples-to-oranges comparison and is misleading.

Q. What should the proper comparison be?

A. Since the $66 million is a gross plant number, Staff should have instead compared to the gross plant added, which was $34.2 million at the end of September 2020.[55]

Q. This number still less than originally projected in the Company's Initial Filing, correct?

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[52] McGuire, Exh. CRM-1T at 21.
[53] Darras, Exh. PCD-3T at 4-5.
[54] McGuire, Exh. CRM-1T at 22.
[55] The total plant added by September 2020 is derived from the Company's September 2020 Results of Operations report (Report of Actual Results of Washington Operations for the Quarter Ending September 30, 2020, Docket UG-200911 (Nov. 12, 2020)), minus the year-end total plant in service (Peters, Exh. MCP-2).

A. Yes, but as explained by Mr. Darras and noted above, this difference is not unexpected due to the construction cycle.

Q. Of the Company's initial capital budget of $96 million, what was the actual 2020 capital additions?

A. The total amount of investment closed to plant in service through the end of 2020 is $96.2 million and of this amount the Company is only seeking recovery of $57.3 million reflecting identified projects from its initial filing.

Q. Public Counsel proposes limiting cost recovery for pro forma projects to the $10 million in total capital spend associated with projects in service by September 2020.[56] Do you agree with this approach?

A. No, for two key reasons. First, the actual amount of capital investment associated with in-service pro forma projects was significantly more than $10 million by the time parties filed response testimony.[57] Public Counsel appears to have omitted blanket capital investments. Second, limiting the Company's cost recovery to projects placed in service well before other parties' testimonies were filed unreasonably limits Cascade's cost recovery for prudent pro forma capital investments, particularly given the unavoidably seasonal timeline for placing such projects in service to accommodate weather constraints.

Q. Are you aware of any specific objections to the prudence of the Company's pro forma capital projects?

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[56] Garrett, Exh. MEG-1T at 11.

[57] Darras, Exh. PCD-3T at 18 (showing total blanket capital investment alone as of the end of September to be more than $12 million).

A. No. Despite the fact that Cascade provided detailed information concerning the Company's pro forma projects, and despite the fact that the number of projects was limited, both Staff and AWEC declined to evaluate the prudence of the Company's decision to pursue these investments.[58] Neither TEP nor Public Counsel commented on the prudence of the Company's pro forma investments.

C. Major Resource Threshold

Q. AWEC argues that Cascade's discrete pro forma projects are too small to be considered "major" capital investments.[59] Do you agree?

A. No. The Commission has not established a bright-line test for what constitutes a "major" capital project. Indeed, the Commission has indicated that the definition of "major" should vary by the size of the company involved in the project.[60] Cascade's proposed threshold of approximately $120,000 is reasonable given Cascade's relatively small size.

Q. Has the Commission indicated that a "major" resource threshold must apply in every case?

A. No. While the Commission has used a major resource threshold in the past, it has suggested that it may not do so in every case. For instance, in Avista's 2015 rate case, the Commission focused on the needs of "the instant case" in applying a screen for

[58] Panco, Exh. DJP-1T at 7 n.6 ("If the projects proposed by Cascade were in service and the costs known and measurable, Staff would also have considered questions regarding prudence and whether the investment was 'major.' However, because the projects were not in service and the ultimate costs unknown, these questions could not be answered."); Mullins, Exh. BGM-1T at 27 (stating that "[i]t [was] not possible to ascertain the prudence of the projects at this time" because the projects were not yet in service).

[59] Mullins, Exh. BGM-1T at 29.

[60] Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 40 (setting a threshold based on the size of the company's rate base).

major resources.[61] This language suggests that, under different facts in a different case, the Commission may consider whether and how to apply a major resource threshold.

D. <u>Blanket Pro Forma Projects</u>

Q. AWEC objects that blanket capital projects cannot be included as pro forma projects because they "cannot be discretely identified" and "presumably comprise[] even smaller investments."[62] Is AWEC correct that blanket projects cannot be treated as pro forma projects?

A. No. On the contrary, the Commission has made clear that pro forma projects can include both "specific" and "programmatic" investments. While "specific" projects are "clearly defined, identifiable or discrete investment[s]," programmatic projects are not:

> Programmatic investments are, by their very nature, investments made according to a schedule, plan, or method such as the replacement of power poles or other small distribution system investments necessary to provide safe and reliable service to Washington ratepayers.[63]

The Commission has indicated that it will be "flexible" in reviewing both specific and programmatic investments that are placed in service after the Test Year.[64] Moreover, exclusion of projects below AWEC's proposed $500,000 threshold would exacerbate the Company's on-going under-earning.

Q. Has the Commission previously approved recovery of a blanket project as a pro forma adjustment?

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[61] Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶¶ 40-41.
[62] Mullins, Exh. BGM-1T at 29.
[63] Docket U-190531, Policy Statement at ¶ 11 n.19.
[64] *Id.* at ¶ 31.

A. Yes. In Avista's 2015 rate case, the Commission approved recovery of that company's proposed pro forma blanket project, even though Public Counsel objected that the project was neither major nor discrete.[65]

Q. AWEC suggests blanket projects could include some projects included in Company's Safety Cost Recovery Mechanism ("CRM").[66] Is that the case?

A. No. Projects included in the CRM are very specific and are discretely identified in the Company's biannual safety plans. No pro forma CRM investments are included in this case, nor are blanket projects included in the CRM.

Q. AWEC similarly argues that Cascade already recovers for some of its growth-related capital investments included in the blanket projects because of Cascade's per-customer decoupling mechanism.[67] Do you agree?

A. No. The Company's decoupling mechanism, unlike an attrition mechanism, does not adjust rate base for known and measurable changes to utility costs associated with new customers. Rather, the Company's decoupling mechanism allows Cascade to defer the difference between billed revenue and the authorized margin per customer (which differs by customer class) per month.[68] Thus, the Company's capital investments are not included in its decoupling mechanism.

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[65] Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 41 (modified on remand on unrelated grounds).
[66] Mullins, BGM-1T at 31.
[67] *Id.* at 31.
[68] *Washington Utilities & Transportation Commission v. Cascade Nat. Gas Corp.*, Docket UG-152286, Order 04 (July 7, 2016) (approving settlement with decoupling proposal); *see also* Schedule 594, Decoupling Mechanism Adjustment.

E. Offsetting Benefits

Q. Staff, AWEC, and Public Counsel point out that Cascade did not include offsetting benefits associated with replaced equipment and corresponding reduced depreciation expense.[69] Has Cascade agreed to expand the scope of offsetting factors to include these benefits?

A. Yes. Cascade has expanded the scope of offsetting factors to include the depreciation impact on the replaced and retired plant associated with the pro forma capital additions adjustment. These factors, combined, reduce the Company's depreciation expenses by $156,744, reducing the revenue requirement effect by $157,055.[70]

Q. How did Cascade calculate reduced depreciation expense associated with replaced and retired plant?

A. Cascade calculated reduced depreciation expense associated with replaced and retired plant using the same formula as AWEC, with two corrections.[71] First, AWEC used a depreciation rate of 4.3 percent.[72] However, Cascade's most recent depreciation study was approved by the Commission in Docket UG-200278, updating the Company's plant depreciation rates.[73] Cascade therefore updated the depreciation rate to 3.06 percent, which is the system average rate approved by the Commission.[74]

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[69] Panco, Exh. DJP-1T at 17; Mullins, Exh. BGM-1T at 30; Garrett, Exh. MEG-1T at 7-8.
[70] Gresham, Exh. MCG-13 (Adjustment R-10).
[71] Mullins, Exh. BGM-1T at 32.
[72] Mullins, Exh. BGM-3.
[73] *In the Matter of Cascade Natural Gas Corp. Petition for an Accounting Order Authorizing Revision to Depreciation Rates*, Docket UG-200278, Order 01, Attachment 1 (Dec. 10, 2020) (showing revised depreciation rates).
[74] *Id.* at 3.

Second, AWEC's assumed replacement and retirement levels for 2020 was based on 2019 levels, which was an abnormally high year for both replaced and retired assets and does not reflect 2020 levels. In both 2018 and 2019, Cascade retired its encoder receiver transmitters (ERTs) as part of its metering system upgrades. This comprehensive replacement resulted in retirement expense levels of $13.1 million in 2018 and $11.5 million in 2019—as compared to the $2.9 million in 2017. Indeed, this amount is more than three times higher than the average retirement expense levels between 2015 and 2017, which averaged $3.8 million.[75]

Therefore, to determine the appropriate replaced and retired expense levels for 2020, Cascade first examined the 2015-2017 average, which yielded an average of $5.35 million in replaced and retired assets. Cascade then examined its actual asset replacements and retirements for 2020. The actual replaced and retired asset levels for 2020 are $8.61 million—a little more than half of the $15.01 million in replaced and retired assets built into AWEC's calculation. Cascade uses the higher 2020 values to calculate the offsetting reduced depreciation expense associated with replaced and retired plant in 2020. This amount is multiplied by the share of the Company's new plant that is being added to rate base to yield the corresponding replaced and retired plant adjustment.[76] The revenue requirement effect of this adjustment is $157,055.

Q. Staff argues that Cascade failed to account for offsetting benefits associated with reduced O&M expense.[77] Is Staff correct?

[75] Parvinen, Exh. MPP-5 (Removal and Retirement Adjustment).
[76] Parvinen, Exh. MPP-5.
[77] Panco, Exh. DJP-1T at 17.

A. No. As I explained in my Direct Testimony, Cascade considered whether the pro forma projects would provide offsetting savings through reduced O&M expense, in addition to the increased revenues from customer growth.[78] For example, a number of projects have the potential to reduce operating costs during peak cold weather events. However, because the Company's Test Year did not have a peak weather event, there were no Test Year costs to offset by these savings.[79]

Q. Is Cascade required to prove that certain types of offsetting factors do *not* exist?

A. No. The Commission has recognized that not all pro forma adjustments come with offsetting factors, and specifically stated that a pro forma adjustment "cannot be used to force the company into the position of proving the nonexistence" of an offsetting benefit.[80]

Q. Staff indicates that Note 28 in Exhibit MCP-6 states that there are unspecified offsetting benefits associated with the blanket funding projects that Cascade did not include.[81] Can you please explain what benefits are referenced in that note and whether Cascade included them?

A. Yes. Staff points to Note 28 in Exhibit MCP-6, which is associated with funding project 101210. That funding project includes purchases of Cascade meter equipment, and the offsetting benefit referenced in the note is the associated growth—*i.e.*,

[78] Parvinen, Exh. MPP-1T at 8.
[79] *Id.*
[80] *Washington Utilities & Transportation Commission v. Northwest Natural Gas Co.*, Cause No. U-83-45, 1984 Wash. UTC LEXIS 63, Second Supplemental Order at *22-23 (Feb. 10, 1984).
[81] Panco, Exh. DJP-1T at 17-18.

increased customer count. As I previously explained, Cascade *did* account for customer growth as an offsetting benefit.[82]

Q. Staff argues that "aggregate offsetting revenue" that is "derived from forecasted load and customer count" is inadequate to reflect offsetting revenues because it is not associated with specific projects.[83] Do you agree?

A. No. Using updated customer counts for EOP 2020 maximizes the offsetting revenues for the Company's pro forma capital projects. While Cascade is not seeking cost recovery of all growth-related capital projects that occurred during 2020, Cascade *is* including all increases in customer revenues by using EOP 2020 customer counts. Staff's concern therefore appears to be that the Company is potentially *overestimating* the offsetting revenue impacts. While Cascade appreciates that it may, indeed, be overstating the offsetting revenues associated with the Company's pro forma capital projects, this is an assumption that errs on the side of benefitting customers by reducing costs, and should not be a basis for excluding recovery of the underlying pro forma projects.

Q. Staff opposes using 2020 EOP customer count and class therm usage numbers, and instead proposes using 2019 EOP values.[84] How do you respond?

A. Staff's adjustment to the customer count measurement date corresponds to Staff's proposal to remove revenue-producing pro forma plant additions—a proposal that Cascade strongly opposes. If the Commission agrees with Cascade that its updated pro

[82] Parvinen, Exh. MPP-1T at 8.
[83] Panco, Exh. DJP-1T at 16.
[84] Panco, Exh. DJP-1T at 16.

forma projects are known and measurable, used and useful, and prudently incurred, then the Commission should include both these projects and the offsetting revenues associated with EOP 2020 customer counts. However, if the Commission accepts Staff's adjustment removing growth-related pro forma plant additions, then Cascade agrees that EOP 2019 customer count should be used.

VI. TAX CUTS AND JOBS ACT SUR-CREDIT REVENUE IMPACTS

A. Background

Q. What is the TCJA?

A. The TCJA is federal legislation that permanently lowered the corporate tax rate from 35 percent to 21 percent. The TCJA was signed into law on December 22, 2017, and became effective January 1, 2018.

Q. Has Cascade addressed the impacts of the TCJA in prior cases?

A. Yes. The TCJA was passed during the pendency of Cascade's 2017 rate case, Docket UG-170929, and had three primary impacts to Cascade from a ratemaking perspective:

- First, the TCJA resulted in a lower tax rate for Cascade, which required an adjustment to Cascade's revenue requirement calculation to reflect the lower tax rate.
- Second, because the rate effective date for that case was August 1, 2018, there was a TCJA benefit (the difference between the tax rate at 35 percent and 21 percent) accruing during the period from January 1, 2018, to July 21, 2018 ("Interim Period").

- Third, the change in the tax rate required a remeasurement of the Company's excess deferred income tax expense, or EDIT, which includes both plant-related ("Protected") EDIT and non-plant ("Unprotected") EDIT.

Q. How are Protected EDIT and Unprotected EDIT different for ratemaking purposes?

A. Protected EDIT is subject to the Average Rate Assumption Method ("ARAM"), which means that there are limits on how quickly Protected EDIT may be turned around and shared with customers. The ARAM limits are tied to each asset and must be recalculated each year. If Cascade returns Protected EDIT in excess of the limits imposed by ARAM, Cascade could be subject to a dollar-for-dollar penalty for a normalization violation.

Unprotected EDIT, on the other hand, is not subject to the same timing limitations and may be returned more quickly.

Q. Did the parties to the 2017 rate case resolve the TCJA issues through a negotiated settlement?

A. Partially. The Partial Joint Settlement Agreement included the change in the tax rate and provided a framework for returning the benefits associated with the Protected EDIT and Unprotected EDIT, in a sur-credit through separately tariffed tracker mechanisms.[85] However, the parties had differing views regarding the methodology for calculating the Interim Period TCJA benefits and the ratemaking treatment of the same, and litigated that one issue.

[85] Docket UG-170929, Partial Joint Settlement Agreement at ¶¶ 11-19 (May 18, 2018).

Q. Please describe the framework for returning the Protected and Unprotected EDIT to customers provided in the settlement in the 2017 rate case.

A. In the Partial Joint Settlement Agreement, the parties agreed that Cascade would address the return of EDIT to customers by creating two new tariffs: Schedule 581 (Protected EDIT) and Schedule 582 (Unprotected EDIT).[86]

Schedule 581. The Schedule 581 tariff was created to return $30.4 million of Protected EDIT ($40.3 million grossed up).[87] The Schedule 581 tariff is trued up and adjusted annually to ensure that the reversal amount is consistent with the ARAM normalization limits.

Schedule 582. The Schedule 582 tariff was established to return to $6.1 million of Unprotected EDIT ($8.1 million grossed up) over a 10-year amortization period.[88] The deferral is trued up annually.

For both tariffs, the true ups occur annually in October to allow for any updates to go into effect in November to coincide with the annual PGA filings. The Commission approved these elements of the Partial Joint Settlement Agreement in Order 06.[89]

Q. How did the Commission address the litigated issue—the Interim Period TCJA benefits?

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[86] *Id.*
[87] *Id.* at ¶¶ 14-16.
[88] *Id.* at ¶ 18. As I explain previously in my testimony, Cascade is now proposing to reduce this amortization period for the remaining Unprotected EDIT to one year to offset the proposed rate increase in this case.
[89] The Commission adopted the Partial Joint Settlement Agreement in Order 06. Docket UG-170929, Order 06, at ¶¶ 53-54.

A. The Commission directed that Interim Period benefits of $1.6 million be returned to customers over a period of 15 months, which began on August 1, 2018, and concluded on November 1, 2019.[90]

Q. Has Cascade been returning the TCJA related benefits to customers consistent with the Commission's Order 06 in the 2017 rate case?

A. Yes.

Q. How are the TCJA-related sur-credits addressed in this case?

A. The TCJA tariffs and amount of sur-credits are not at issue in this case because they are addressed through separate tariffs. However, AWEC has raised a concern that, because the Company did not remove the TCJA sur-credit revenues from its case, the Company is overstating its revenue requirement. As I will explain in greater detail below, AWEC's concerns are without merit. Cascade included both the sur-credit revenues and the sur-credit expense embedded within its Operating Report, which is an expanded or more detailed form of the per books Results of Operations Summary Sheet, which was the foundation for the Company's proposed rates in this case.[91] The Operating report for 2019 is included as Exhibit No. __ (MPP-4). Because the Company included both sides of the equation—the revenues and the expenses—there is a complete offset, and thus there is no impact from a ratemaking perspective. As

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[90] *Id.* at ¶ 109 (July 20, 2018) ("Cascade Natural Gas Corporation must refund to its customers the $1.6 million in excess deferred income tax it collected between January 1, 2018, and July 31, 2018, through a separate tariff schedule. The amount will be amortized over a 15-month period beginning August 1, 2018.").
[91] Peters, Exh. MCP-2 Column (1) (Results of Operations Summary Sheet).

explained below, Cascade has identified and corrected one out-of-period item, however, resulting in an adjustment to its Rebuttal Filing of $406,245.

B. <u>Accounting Treatment for EDIT Sur-credits and Implications for Ratemaking</u>

Q. Did Cascade explain the accounting treatment of the sur-credits in discovery?

A. Yes. In response to specific questions posed by Staff and AWEC, Cascade addressed certain aspects of the Company's approach to recording the TCJA sur-credit revenues and how they are reflected in the Company's operating results. These issues are addressed the Company's responses to AWEC DRs 40-44 and 48, and WUTC 131 and 132. However, these responses may not have fully made clear the accounting for the EDIT sur-credits. To address this issue and help parties better understand the Company's approach, I prepared a summary of the accounting treatment for Protected EDIT sur-credits, which is included as Exhibit No. __ (MPP-6).

Q. Please provide an overview of Exhibit No. __ (MPP-6).

A. Exhibit No. __ (MPP-6) starts with Cascade's calculation of the booked amounts related to Federal Income Tax and Deferred Taxes and demonstrates how the Protected EDIT is embedded in these amounts thus offsetting the revenue sur-credit.

Q. How is this accounting approach reflected in the Company's revenue requirement in this case?

A. The revenue sur-credit totals $1,965,917 as shown in Figure 1, below. The bottom line highlighted on page 4 of Exhibit MPP-6 is the EDIT ARAM amortization of $1,476,975. The difference between $1,965,917 and $1,476,975 referenced above is $488,942, which is the tax effect of the revenue or gross-up of the amortization as required by Docket UG-170929. Since the amortization is included in deferred taxes—

which is not included in net income before taxes—the revenue sur-credit is taxed for federal income tax and revenue sensitive items at the same rate as was included in Docket UG-170929. So, to be clear, the sur-credit is included in operating revenues, which after subtracting tax and revenue sensitive items and the ARAM amortization equals zero net income effect. Simply stated, a result with zero net income effect equals zero revenue requirement effect.

Q. Did you prepare an exhibit showing how the offset associated with the Interim Period TCJA benefit is included this case?

A. Yes. Exhibit No. ___(MPP-4), line 19 shows the FERC Account 4962 "Provision for Rate Refund," which is reflected in the operating revenues in this case as an offset to the Interim Period TCJA benefit.

Q. How are the revenue sur-credit and offsetting amount reflected in in this case?

A. The revenue sur-credit associated with the Interim Period TCJA is $1,407,934. The offsetting amount included in this case in FERC account 4962 is $1,001,689.

Q. Why are these two amounts above not equal?

A. As a result of the Commission's actions during the October 24, 2019, open meeting, providing additional clarification to its order in Docket UG-170929, Cascade was required to book an additional amount of refund.[92] As a result, Cascade's revenues were understated by the difference. Cascade has made an adjustment to its rebuttal revenue requirement request to reflect the difference.

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[92] *Washington Utilities and Transportation Commission v. Cascade Natural Gas Corp.*, Docket UG-190775, Order 01 at ¶ 2 (Oct. 24, 2019).

C. Response to AWEC's Adjustment

Q. Please summarize AWEC's TCJA sur-credit revenues adjustment.

A. AWEC claims that Cascade improperly failed to remove the TCJA sur-credit revenues when it calculated revenue requirement, and because these amounts reduce Cascade's revenues, Cascade's inclusion of these amounts results in an artificially inflated revenue requirement.[93] AWEC therefore proposes an adjustment to remove the TCJA sur-credit revenues that it claims are not offset by other benefits.

Q. How did AWEC calculate its adjustment?

A. AWEC first determined the total amount of TCJA sur-credit revenues in the Company's 2019 Test Period revenue requirement, which is negative $4,257,028. For ease of reference, see below for AWEC's Table 7, which includes a breakdown of the different categories of TCJA sur-credits that are included in the 2019 Test Period:

Figure 1. AWEC Table 7 from BGM-1T[94]

Tax Reform Sur-Credit Revenues in Test Period Revenue Requirement

WA Protected-Plus Excess Deferred Income Tax	(1,965,917)
WA Unprotected Excess Deferred Income Tax	(883,177)
WA Temporary Federal Income Tax Rate Credit	(1,407,934)
Total Tax Reform Sur-Credit Revenues in Test Period	**(4,257,028)**

For the Unprotected EDIT category, AWEC identified $657,046 of offsetting tax benefits, which it applied to the sur-credit revenues amount for an adjustment of $3,599,982. Accordingly, AWEC proposes to exclude all remaining sur-credit

[93] Mullins, Exh. BGM-1T at 41.
[94] *Id.*

revenues associated with the TCJA from revenue requirement in the amount of $3,599,982.[95]

Q. How do you respond to AWEC's proposed adjustment?

A. AWEC's adjustment should be rejected. It is rooted in a fundamental misunderstanding of the Company's approach to accounting for the EDIT and Interim Period sur-credit revenues in determining revenue requirement. AWEC fails to recognize that any and all deferral amortizations are net income neutral. The income statement impact is reflected at the time of creating the deferral, which is why all deferral applications in front of the Commission identify the accounts that would be impacted absent the deferral. AWEC recognizes this fact in other deferral items such as the Purchase Gas Adjustment (PGA), Conservation, and Decoupling. As I discussed above, the Company's approach results in a complete offset, similar to the supplemental tariffs for decoupling and the PGA.

Q. Does AWEC distinguish the TCJA sur-credit revenues from the PGA and decoupling supplemental tariffs?

A. Yes. AWEC notes that for some supplemental tariffs, like the PGA or decoupling, the costs and revenues are fully offsetting in the Company's operating results and therefore there is no difference, but for the TCJA sur-credit revenues, AWEC failed to recognize the offsetting half of the total equation or entries.

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[95] *Id.* at 43-44.

Q. Do you agree with AWEC's conclusion that the inclusion of the TCJA sur-credit revenues is materially different from the PGA or decoupling as it relates to whether there is an offset?

A. No. As stated above, every deferral amortization is net income neutral. These items are no different. For example; the sur-credit associated with the Interim Period TCJA benefits identified above as $1,407,934 is included as a reduction to FERC revenue accounts 480 (Residential), 481 (Commercial/Interruptible), and 489 (Transportation Revenue). However, AWEC failed to recognize that an offsetting amount is booked to FERC account 4962 (Provision for Rate Refund) in the same amount. Because the revenue is completely offset there are no tax implications. See Exhibit MPP-4, line 19 for the balance of the FERC account 4962 offsetting revenue account.

Q. Can you identify where the offsetting amounts related to the Unprotected EDIT are located?

A. Certainly. First, AWEC acknowledges the majority of the offset. In the Figure 1, above, AWEC identifies the revenue sur-credit associated with the Unprotected EDIT as $883,177. AWEC also acknowledges the offset or amortization as $657,046. Because the amortization is included as an increase to the current deferred income tax account, the amortization is reflected after taxes. Therefore, the difference between the $883,177 and $657,046 is the federal income tax and revenue sensitive components. In other words, this reflects the gross up required and recognized in the order in Docket UG-170929.

Q. As a result of AWEC's concerns, is Cascade proposing an adjustment?

A. Yes, indirectly. As a result of providing full accounting and detail of the offsetting amounts to AWEC's claims, Cascade discovered that it had booked an additional deferral or reduction to revenue associated with a prior period, resulting in a revenue requirement reduction in the amount of $406,245.[96]

Q. AWEC asserts that Cascade's inclusion of the TCJA sur-credit revenues in its revenue requirement calculation is inconsistent with the approach used by the Company's peers. How do you respond?

A. As I explained above, the Company's approach is revenue neutral, and thus the Company's presentation does not make a difference in the calculation of revenue requirement. Nonetheless, to avoid confusion in the future, Cascade commits that in future rate case filings it will exclude all supplemental tariff schedules.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.

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[96] *See* Gresham, Exh. MCG-11T at 4.