Puget Sound Energy COVID-19 Cost Deferral Petition
Dockets UE-200780 and UG-200781

Avista Corporation COVID-19 Cost Deferral Petition
Dockets UE-200407 and UG-200408

Pacific Power & Light Company COVID-19 Cost Deferral Petition
Docket UE-200234

Cascade Natural Gas Corporation COVID-19 Cost Deferral Petition
Docket UG-200479

NW Natural COVID-19 Cost Deferral Petition
Docket UG-200264

DECLARATION OF LISA W. GAFKEN

IN SUPPORT OF JOINT RESPONSE OF

THE OFFICE OF THE WASHINGTON ATTORNEY GENERAL

PUBLIC COUNSEL UNIT

AND

THE ENERGY PROJECT

Exhibit No. 6:

Puget Sound Energy's Response to Public Counsel and The Energy Project Informal Data Request No. 27(a); Cascade's Response to Public Counsel and The Energy Project Informal Data Request No. 10; Cascade's Response to Public Counsel and The Energy Project Informal Data Request No. 27; and NW Natural's Response to Public Counsel and The Energy Project Informal Data Request No. 27

Puget Sound Energy’s Response to Public Counsel and The Energy Project Informal DR 27(a) (without Attachments)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket UE-200780 and UG-200781
Puget Sound Energy
Petition for Order Authorizing Accounting Cost Associated With COVID-19

PUBLIC COUNSEL & THE ENERGY PROJECT INFORMAL DATA REQUEST NO. 027:

Does the Company contend that it has experienced or anticipates experiencing any future financial instability or lack of liquidity as a result of COVID-19 impacts upon its business? If your response is affirmative, please provide the following information:

a) A detailed description and quantification of each instance where financial instability or limited access to needed capital on reasonable terms has actually been experienced by the Company, to date, indicating whether and how each instance was resolved.

b) Explain with specificity and quantify any anticipated future instances of financial instability or lack of access to needed capital on reasonable terms.

c) Have credit rating agencies indicated any negative credit watch or anticipated or actual changes in credit ratings for the Company in 2020?

d) Provide copies of documents supportive of your responses to subparts a) through c), if applicable.

Response:

Yes, Puget Sound Energy (“PSE”) experienced liquidity constraints as a result of COVID-19 impacts on financial markets. The responses below and attached documentation describe those impacts.

a) During the March through late May 2020 timeframe, as state and nation-wide shutdowns were issued, the short-term money markets where PSE normally supports its funding needs by utilizing Commercial Paper (“CP”), experienced considerable market disruption. Supply of CP was significantly limited and rates increased by 100 basis points over a 30-day period in March. As a result, PSE struggled with issuing CP from mid-March to mid-April. PSE paid higher interest rates for shorter-duration and smaller tranches of CP. Please see Attachment A to PSE’s Response to Public Counsel & The Energy Project Informal Data Request No. 027, and refer to tab “CP Costs” rows 13-27 for an illustration of this point.

Due to concerns about liquidity with the CP market and the cost thereof, PSE made the decision to implement a cash liquidity reserve of a minimum of $100 million and borrow under its revolving credit facility. PSE wanted to ensure that it could sufficiently pay normal ongoing expenses such as payroll, vendor payments, power and gas purchases to supply service to customers, etc., despite the challenging market dynamics. Attachment A to PSE's Response to Public Counsel & The Energy Project Informal Data Request No. 027, tab "Credit Agreement Costs," details that the interest rates of the revolving credit facility was roughly equal to that of the CP market.

As stability and functionality returned to the markets in May, PSE was able to resume utilizing CP for funding, repay the money drawn on the credit facility, and reduce the cash reserve to $20 million. As detailed in both tabs of Attachment A to PSE's Response to Public Counsel & The Energy Project Informal Data Request No. 027, the total additional costs incurred due to the higher CP rates and funding the cash liquidity reserve was approximately $326,747.

b) Financial market instability and inhibited access to capital are normally caused by unexpected sudden economic, political or financial shocks to the financial markets. As such, PSE cannot know or quantify any future instances of financial instability or inhibited access to capital.

c) Yes, as a result of the Commission's Final Order 09 in PSE's 2019 general rate case issued on July 8, 2020, which was heavily influenced by the Commission's concerns about the impact of rate increases on customers during the COVID-19 pandemic, all three credit rating agencies took swift action and issued updated opinions on the financial health of PSE and the state of regulation in Washington. On July 17, 2020, Moody's Investor Services characterized the rate case outcome as "credit negative…because it will constrain cash flow growth which...will pressure credit metrics." This was followed by S&P Global, who also placed PSE on CreditWatch with negative implications on July 23, 2020, noting that the rate order "was less than credit supportive." This was followed by commentary from Fitch Ratings on July 27, 2020, which revised PSE's credit rating outlook to negative (from stable) in response to the rate order. In response to the Commission's clarified Order 10 on July 31, 2020 that increased cash modestly relative to the initial order, S&P Global subsequently removed PSE from CreditWatch on August 21, 2020. However, it maintained a negative credit outlook for PSE. On August 25, 2020, Moody's affirmed a stable credit outlook for PSE, but cautioned that it could be downgraded "if decisions by the WUTC continue to be…unsupportive of credit quality." S&P and Fitch continue to monitor the regulatory environment in Washington and will reevaluate PSE's ratings later this year, based in part if further regulatory action with PSE or other peer utilities is credit supportive or credit negative.

d) Please see Attachment A to PSE's Response to Public Counsel & The Energy Project Informal Data Request No. 027, which illustrates how the CP markets tightened over the course of March and April as the regional and national economic activity was largely constrained due to stay-at-home orders. Additionally, Attachment A to PSE's Response to Public Counsel & The Energy Project Informal Data Request No. 027 illustrates PSE's use of the revolving credit facility to buoy PSE's cash reserves as a risk mitigation practice to ensure that PSE had enough cash on hand for future payment activities, as illiquidity in the CP market persisted. Please see Attachments B-F to PSE's Response to Public Counsel & The Energy Project Informal Data Request No. 027, which contain the rating agency action and opinions since PSE received the general rate case Final Order on July 8, 2020.

Cascade's Response to Public Counsel and The Energy Project Informal Data Request No. 10 (without Attachments)

Request No. 10 Updated

Date prepared: 9/24/20

Preparer: Dustin Senger

Contact: Christopher Mickelson

Email: Christopher.Mickelson@cngc.com

Telephone: 509-734-4549

PC/TEP-10 Has the Company investigated all available opportunities to cost-effectively refinance outstanding debt or issue new debt at currently favorable market interest rates? Please explain your response and provide copies of documentation associated with the Company's efforts undertaken since March 1, 2020, to evaluate debt financing opportunities.

Response:

Over the past several years the company has been able to issue debt with long maturities at low rates. While most of the current note purchase agreements allow the company to call its debt prior to maturity, they also carry make-whole provisions which generally make the early retirement of the debt cost prohibitive. The company periodically reviews its outstanding debt to determine the feasibility of refinancing the debt at lower rates, taking into account the required make-whole payments. During the most recent review it was determined that the necessary make whole payments were cost prohibitive to attempt to refinance the debt. However, there is one issuance that does not require a make-whole which the company will seek to refinance in the near future if terms remain favorable.

Updated Response:

On October 30, 2020, Cascade Natural Gas borrowed $25,000,000.00 for a term of 40 years at 3.34% interest. On November 2, 2020, the proceeds of that debt issue were used to payoff $24,201,000.00 of outstanding debt in Insured Quarterly Notes, maturing on 2/1/2035 at 5.25% interest.

See Attached: PC-TEP-10 (11-5 Update) (Cascade $25M Loan Agreement).pdf
PC-TEP-10 (11-5 Update) (Cascade IQN Loan Payoff).pdf

Cascade's Response to Public Counsel and The Energy Project Informal Data Request No. 27

Request No. 27

Date prepared: 11/12/20

Preparer: Kevin Conwell

Contact: Christopher Mickelson

Email: Christopher.Mickelson@cngc.com

Telephone: 509-734-4549

PC/TEP-27 Does the Company contend that it has experienced or anticipates experiencing any future financial instability or lack of liquidity as a result of COVID-19 impacts upon its business? If your response is affirmative, please provide the following information:
a) A detailed description and quantification of each instance where financial instability or limited access to needed capital on reasonable terms has actually been experienced by the Company, to date, indicating whether and how each instance was resolved.
b) Explain with specificity and quantify any anticipated future instances of financial instability or lack of access to needed capital on reasonable terms.
c) Have credit rating agencies indicated any negative credit watch or anticipated or actual changes in credit ratings for the Company in 2020?
d) Provide copies of documents supportive of your responses to subparts a) through c), if applicable.

Response:

The Company has not experienced nor do we anticipate any lack of liquidity issues to the COVID-19 pandemic.

NW Natural's Response to Public Counsel and The Energy Project Informal Data Request No. 27 (without Attachments)

NW Natural®

Rates & Regulatory Affairs
UG-200264
COVID-19 Accounting Order Petition
Data Request Response

Date of Response: November 9, 2020
Responder: Diana Huong
Telephone: 503-610-7335
Email: Diana.huong@nwnatural.com
Witness: TBD

Request No.: UG-200264 PC TEP DR 27

27. Does the Company contend that it has experienced or anticipates experiencing any future
financial instability or lack of liquidity as a result of COVID-19 impacts upon its business? If your response is affirmative, please provide the following information:

a) A detailed description and quantification of each instance where financial instability or limited access to needed capital on reasonable terms has actually been experienced by the Company, to date, indicating whether and how each instance was resolved.

b) Explain with specificity and quantify any anticipated future instances of financial instability or lack of access to needed capital on reasonable terms.

c) Have credit rating agencies indicated any negative credit watch or anticipated or actual changes in credit ratings for the Company in 2020?

d) Provide copies of documents supportive of your responses to subparts a) through c), if applicable.

Response:

The Company did experience financial instability earlier this year during the March to June 2020 time period. Generally, we will borrow commercial paper (CP) on a daily or weekly basis to support our working capital needs. At the beginning of March overnight CP rates were in the range of 1.7%. Beginning March 10, 2020 we began to see challenges for Tier 2 CP issuers. On March 12th one of our CP issuer banks, Wells Fargo, noted Tier 3 issuers were looking for other funding options, while Tier 2 and Tier 1 still had some access at elevated levels with Tier 2 having more challenges than Tier 1. NW Natural is a Tier 2 CP issuer with a A2/P2 CP rating. We then began seeing CP rates over 3% around March 20, 2020 with limited access. At this time, the Company made a decision to borrow on its credit lines to avoid the high-priced CP markets and address the access concerns being presented by the CP market.

NW Natural's credit facility rates are at 1-month LIBOR plus 90 bps, which at the time were in the 1.8% range. The combined outstanding CP balances and credit line borrowings were at the credit facility limit of $300M. NW Natural decided to not exercise its accordion feature on the facility and instead entered into a separate 364-day term loan at 1-month LIBOR plus 60 bps.

In addition to these short-term debt transactions, we also executed a 30-year First Mortgage Bond issuance at 3.60% which was the Company's lowest 30-year issuance ever. While the commercial paper markets were unstable with very high comparable rates, the long-term debt markets remained constructive during this volatility allowing for the execution of very attractive long-term debt.

The combination of all these financings provided the Company sufficient liquidity for the year. We continued to monitor the CP markets, the equity markets and fixed income markets throughout the second quarter and ultimately decided to repay the balances on our credit lines during the second quarter. These were the most expensive short-term borrowings and as a result we repaid those balances first. During the second quarter we began to see stability in the CP market with CP rates declining as a result from the quick response by the Federal Reserve. They re-established the Commercial Paper Funding Facility and Money Market Fund Liquidity programs which had helped unlock assets and provided liquidity into the market. In addition, the Fed also cut the interest rate down to near zero to support post-COVID economic recovery which has helped keep the CP rates at its lower bound.

Then in October 2020 the Company reached a point where additional liquidity was needed to fund gas purchases and other working capital needs. With the CP markets stabilizing for a period of time and the interest rate difference in CP and 364-day term loan, the decision was made to repay the outstanding 364-day term loan with commercial paper. As of October 30, 2020, the all-in overnight borrowing rate for CP going out to 9-month term was ranging from 15 bps to 50 bps whereas it was 76 bps for 1-month LIBOR borrowing under the 364-day term loan.

We have calculated the incremental costs associated with the borrowings under our credit line and the 364-day term loan, and determined them to be incremental financing costs associated with the market instability created by COVID-19.

Below is a table summary of the incremental financing cost:

	NWN CREDIT FACILITY	364-DAY TERM LOAN	TOTAL
FINANCING COST	$ 1,147,146.53	$ 876,186.73	$ 2,023,333.26

Throughout the year we have been in constant communications with both S&P and Moody's on the actions described above. While these activities add debt to the balance sheet and negatively impact credit metrics, both agencies were extremely supportive of these actions to protect against the market instability and liquidity challenges that were ongoing. They both have communicated that they would be providing us 18 to 24 month cure periods to allow for their metrics to recover. While we believe the regulatory deferrals for COVID-19 related costs will help over the long-term in us recovering costs or lost revenues, the timing of the recovery may cause cash flow challenges over the next 2 or 3 years.