BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION	)	DOCKET UG-170929
Complainant,	)	
v.	)	
CASCADE NATURAL GAS CORPORATION	)	
Respondent.	)	

CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF

THE NORTHWEST INDUSTRIAL GAS USERS

March 23, 2018

I. INTRODUCTION AND SUMMARY

Q. ARE YOU THE SAME BRADLEY G. MULLINS WHO FILED RESPONSE TESTIMONY IN THIS PROCEEDING?

A. Yes. I previously filed Response Testimony on behalf of the Northwest Industrial Gas Users ("NWIGU"). My business address has changed to 1750 SW Harbor Way, Suite 450, Portland Oregon 97201.

Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?

A. I respond to the revenue requirement recommendations made by both Staff and Public Counsel. In contrast to Cascade's initially proposed revenue increase of $5,884,984, Staff, Public Counsel and NWIGU each recommend that Cascade's rates be subject to material reductions. In Response Testimony, Staff calculated a revenue sufficiency of (-)$6,188,193. Similarly, Public Counsel calculated a revenue sufficiency of (-)$5,199,506. The analysis presented in my Response Testimony supported a revenue sufficiency of (-)$5,888,124, roughly in line with the recommendation of other parties. After considering the specific revenue requirement adjustments proposed by the other parties, however, my analysis now supports a larger revenue sufficiency of (-)$9,907,827, corresponding to a rate reduction of approximately 4.5%.

Q. PLEASE SUMMARIZE YOUR UPDATED REVENUE REQUIREMENT RECOMMENDATION?

A. In Exhibit BGM-6, I have provided an updated revenue requirement analysis incorporating certain recommendations of Staff and Public Counsel. The results of my analysis, along with a step-change study relative to Cascade's initial filing, may be found

Table 1-CA below. For ease of reference, I have also conformed my adjustment numbering to be consistent with the numbering Staff has used.

TABLE 1-CA
Impact of Contested Adjustments on Revenue Requirement
Deficiency / (Sufficiency), $000

Ln	Adj. No.	Description	----- $000 -----	
1		**Cascade Initial Filing**		**5,885**
2		**Recommended Adjustments**		
3	*n/a*	Apply 9.4% ROE	(1,211)	
4	*PF-3*	Pro Forma Plant Additions	(2,076)	
5	*UTC-2*	Supplemental Executive Retirement Plan	(572)	
6	*UTC-1*	Affiliate Bonus Payments	(1,190)	
7	*UTC-5*	Employee Arbitration Contingency	(221)	
8	*P-4*	Rate Case Costs	(214)	
9	*P-1*	Interest Coordination	181	
10	*P2, UTC-6*	*Wage Escalation*	*(725)*	
11	*R1, R3, P9*	*Weather Normalization*	*(974)*	
12	*P6*	*MAOP Deferral*	*(560)*	
13	*TCJA-1*	Restate Tax Expense	(4,129)	
14	*TCJA-2*	EDFIT Amortization	*(2,386)*	
15	*TCJA-3*	Tax Deferral 1/1/18 - 7/31/18	*(2,014)*	
16	*TCJA-4*	Update Conversion Factor	297	
17		**Total Adjustments**		**(15,793)**
18		**Recommendation**		**(9,908)**

Q. ARE YOU CONTINUING TO RECOMMEND THAT THE REDUCTION BE SPREAD ON AN EQUAL PERCENT OF MARGIN BASIS?

A. Yes. I continue to recommend that this reduction be spread on an equal percent of margin basis, consistent with the recommendation of Staff.[1]

1 Exh. No. MCC-1T at 3:16-17.

Q. HAVE YOU REVIEWED STAFF'S RECOMMENDATION RELATED TO WEATHER NORMALIZATION (ADJUSTMENTS R1, R3, AND P9)?

A. Yes. In Exhibit JL-1CT, Staff witness Lee discusses Cascade's weather normalization methodology.[2] Staff notes that Cascade has deployed a new forecasting methodology for weather normalization, which relies on a forecast of usage at the city-gate level. Staff also testified that there are many flaws in the new forecasting model Cascade has developed. For example, Staff notes that the new forecasting methodology is less accurate than the methodology previously used by the Company because it relies only on city-gate data and uses a single coefficient across all months of the year. Accordingly, Staff recommends that the weather normalization methodology previously approved in Cascade's 2015 general rate case be used in this case.

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION REGARDING WEATHER NORMALIZATION?

A. Yes. Staff has performed a thorough analysis and identified legitimate concerns with the new weather normalization methodology. Further, Cascade has failed to provide any compelling evidence suggesting the previously approved weather normalization methodology is inadequate. Accordingly, I have adopted Staff's revenue requirement recommendations related to weather normalization (Adjustments R1, R3, and P9) and have incorporated that into the updated revenue requirement calculations provided in Exhibit BGM-6.

---

[2] Exh. No. JL-1CT at 3:12-13.

Q. HAVE YOU REVIEWED STAFF AND PUBLIC COUNSEL'S RECOMMENDATIONS ON PRO FORMA WAGES (ADJUSTMENT P2)?

A. Yes. Staff witness Hillstead recommends separating the wage adjustment into two distinct adjustments—one for the restating impacts of the wage adjustment, and the other for the pro forma impacts of the wage adjustment.[3] Further, Staff also recommends removing the 2018 wage escalation included in the pro forma wage adjustment, as those amounts do not meet the known and measurable standard.[4] Public Counsel does not address whether the wage increase should be segmented into a separate restating and pro forma adjustments, but Public Counsel does recommend excluding the 2018 wage increase as not being known and measurable.[5]

Q. DO YOU AGREE WITH STAFF AND PUBLIC COUNSEL THAT THE 2018 WAGE INCREASE SHOULD BE EXCLUDED?

A. Yes. As Public Counsel notes, the 2018 wage increase is not properly considered known and measurable based on the way the Commission has applied the known and measurable standard in the past. Accordingly, I have adopted the recommendation of both Staff and Public Counsel to exclude 2018 wage escalation from the pro forma wage adjustment. In addition, I have also separated the wage adjustment into a separate restating and pro forma adjustments, consistent with Staff's presentation.

---

3 Exh. No. KMH 1T at 20:9-13.

4 Exh. No. KMH-1T at 21:1-5.

5 Exh. No. DMR-1T at 9:5-14:5.

Q. HAVE YOUR REVIEWED STAFF'S TESTIMONY REGARDING THE MAXIMUM ALLOWABLE OPERATING PRESSURE DEFERRAL (ADJUSTMENT P6)?

A. Yes. Staff witness White testified regarding the MAOP deferral calculation and recommends that the Commission correct several issues associated with the MAOP deferral.[6] Specifically, Staff identified that Cascade's deferral calculation relies, in part, on estimates that do not satisfy the known and measurable standard. In addition, Staff also noted that the Commission has already disallowed certain MAOP costs not properly documented pursuant to federal regulatory requirements, and that those disallowed costs should be excluded.

Q. DO YOU AGREE WITH STAFF'S ADJUSTMENT ON THE MAOP DEFERRAL?

A. Yes. I confirmed that the Commission expressly disallowed costs associated with improperly documented mains in Docket PG-160293. In addition, I also agree that the 2018 estimates also are not properly considered known and measurable and includible in the deferral balance. Accordingly, I have adopted Staff's adjustment related to the MAOP deferral, and incorporated the impact of Staff's adjustment P6 into the revenue requirement calculations in Exhibit BGM-6.

Q. HAVE YOU REVIEWED STAFF'S RECOMMENDATION ON PRO FORMA CAPITAL ADDITIONS (ADJUSTMENT P3)?

A. Yes. Staff witness Panco testified regarding pro form plant additions.[7] In past proceedings Staff has advocated using one half of one percent of a utility's rate base as a

---

[6] Exh. No. AIW-1T at 6:1-21.
[7] Exh. No. DJP-1T at 3:7-8:13.

bright-line to determine which post test period plant additions are appropriately considered "major", and thus, appropriately reflected in revenue requirement on a pro forma basis. Staff initially applied it's one half of one percent of rate base methodology to Cascade's filing, however, and determined that applying the methodology would result in inclusion of just a single large project on a pro forma basis, the "Richland Project" that I identified as a pro forma plant addition in my Response Testimony.

Q. WHY DID STAFF NOT APPLY ITS ONE HALF OF ONE PERCENT METHODOLOGY IN THIS CASE?

A. Staff found that the inclusion of a single, major project was "unreasonable," and accordingly, proposed a new methodology where it selects the top 20 percent of projects proposed by Cascade.[8] According to Staff, its new approach would result in including approximately 76% of all post test period capital additions in rate base.

Q. DO YOU AGREE WITH STAFF'S NEW POSITION?

A. No. I disagree that the scope and breadth of Staff's new proposal conforms to the Commission's past practice towards post test period capital additions. In Docket No. UE-130043, Pacific Power's 2013 General Rate Case, for example, the Commission allowed Pacific Power to include in rate base capital additions related to just four major projects that were placed into service shortly after the test period.[9]

In addition, including the majority of all post-test period plant additions, as Staff recommends, is problematic because it results in a skewed rate base valuation. Under

---

8 Id.

9 Docket No. UE-130043, Order 05 at ¶¶ 186 – 209 (Dec. 4, 2013).

Staff's approach the gross plant levels would effectively be more consistent with 12/31/2017 levels, while the corresponding depreciation reserve balances would still be stated at 12/31/2016 levels.

If Staff's proposal to include 76% of all capital additions in 2017 is to be adopted, then it would be consistent to also include 76% of all incremental depreciation reserves accrued in 2017. Using test period depreciation and amortization expenses of $19,356,398, including 76% of all incremental depreciation reserves accrued in 2017 would yield an adjustment to the depreciation reserve of $14,710,863. Compared to Staff's capital adjustment of $7,524,904, updating the depreciation reserve will actually produce a reduction to rate base of (-)$7,185,959. Based on this result, I do not agree with Staff's newly developed view towards capital expenditures and continue to recommend that the post test period plant additions be limited to the "Richland" project.

Q. DO YOU HAVE ANY COMMENTS ON CASH WORKING CAPITAL?

A. Staff witness Erdahl discusses Cascade's calculation of cash working capital, noting the inclusion of large cash balance in the calculation, as well as a number of other flaws.[10] From my perspective, use of the balance sheet method for calculating working capital requirements, particularly for large utilities, should be disfavored relative to a lead-lag study method. While the use of a lead-lag study is not perfect either, the lead lag study methodology is less prone to the sorts of flaws that Staff has identified. While Staff has identified many valid concerns with respect to the investor supplied working capital

[10] Exh. No. BAE-1T at 10:10-28:2.

calculation, my revenue requirement calculations take no position on the investor supplied working capital calculations Staff has proposed.

One issue related to working capital that I have incorporated in my revenue requirement recommendation, however, concerns Adjustment TCJA-2 relating to Excess Deferred Federal Income Taxes ("EDFIT"). Since filing my Response Testimony, it has come to my attention that the certain Accumulated Deferred Federal Income Taxes were included in the investor supplied working capital calculation as working capital. In my Response Testimony, my adjustment TCJA-2 did not consider the impact of ADFIT included in the working capital calculations. Accordingly, on Page 16 of Exhibit BGM-6, I have incorporated the ADFIT included as cash working capital into the calculation of EDFIT amortization.

Q. WHAT IS THE IMPACT OF INCLUDING THE WORKING CAPITAL ADFIT IN THE EDFIT CALCULATIONS?

A. As noted in Exhibit BGM-6, the investor supplied working capital calculation included $36,963,320 of non-plant ADFIT as working capital. To determine the amount included in results, that amount was grossed down based on the ratio of the book investor supplied capital to the rate base investor supplied capital of 70%, consistent with the investor supplied working capital calculation. The resulting balance of $25,775,029, was then revalued at the lower tax rate to calculate an EDFIT balance of $10,310,011.

Q. OVER WHAT PERIOD DO YOU PROPOSE TO AMORTIZE THE NON-PLANT EDFIT INCLUDED IN WORKING CAPITAL?

A. Since the ADFIT included in working capital is unrelated to plant balances, it is not necessary to apply the IRS normalization requirements when determining the amortization period for the associated EDFIT balances. The non-plant EDFIT is considered "unprotected", and thus, the Commission has flexibility over how those balances are amortized and returned to ratepayers. In general, I support using a longer amortization period for the non-plant EDIFT balances for the purpose of supporting rate stability. While a shorter amortization period may result in lower rates in the short-term, ratepayers will be subjected with larger rate increases when the amortization period ends if a shorter amortization period is used. Accordingly, I propose a ten year amortization period for the non-plant EDFIT included in working capital.

As a result of applying this amortization, the revenue requirement impact of EDFIT amortization in Adjustment TCJA-2 increased to (-)$2,386,112. In my revenue requirement model, EDFIT amortization also flowed through as an input to the calculation of the Adjustment TCJA-3, the 01/01/18 - 7/30/18 TCJA Deferral, and accordingly, the revenue requirement impact of TCJA-3 increased to (-)$2,013,839 in Exhibit BGM-6.

Q. WHY DO BOTH STAFF AND PUBLIC COUNSEL PRESENT A DIFFERENT ADJUSTMENT VALUE FOR SERP EXPENSES?

A. I relied on Cascade's response to NWIGU Data Request 8, which provided detailed, transaction level data associated with SERP expenses of $726,254 Total System, and $546,651 Washington-Allocated. Staff and Public Counsel relied on Cascade's response to Public Counsel Data Request 31, which identified a smaller SERP expense amount of just $127,508. Based upon my review, Cascade's response to NWIGU Data Request 8 appeared to be a more complete set of the SERP-related charges reflected in book results.

Accordingly, I recommend that Cascade's response to NWIGU Data Request 8 be used to calculate the impact of removing SERP expenses from the test period, corresponding to a $546,651 increase to pre-tax operating income.

Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

A. Yes.