Exhibit BGM-9T
Docket UG-240008
Witness: Bradley G. Mullins

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-240008

TESTIMONY IN SUPPORT OF MULTIPARTY SETTLEMENT STIPULATION

ON BEHALF OF

ALLIANCE OF WESTERN ENERGY CONSUMERS

BY

BRADLEY G. MULLINS

December 11, 2024

TABLE OF CONTENTS TO THE TESTIMONY IN SUPPORT OF MULTIPARTY SETTLEMENT STIPULATION OF BRADLEY G. MULLINS

I. INTRODUCTION AND SUMMARY

Q. ARE YOU THE SAME BRADLEY G. MULLINS THAT SUBMITTED RESPONSE TESTIMONY ON SEPTEMBER 24, 2024, ON BEHALF OF ALLIANCE OF WESTERN ENERGY CONSUMERS ("AWEC") IN THIS PROCEEDING?

A. Yes, I previously filed Response Testimony on Cascade Natural Gas Corporation's ("Cascade") Multi-Year Rate Plan in which I made several proposed adjustments to Cascade's filed case.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe and provide AWEC's support for the Full Multi Party Settlement Stipulation ("Settlement Stipulation") between Commission Staff ("Staff"), the Energy Project ("TEP"), and AWEC ("Settling Parties"). The Settlement Stipulation resolves all issues raised by the parties in this docket, and was the result of extensive discussions and negotiations between the parties in this proceeding.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony gives a brief overview of Cascade's filing; describes the Settlement Stipulation; and explains why AWEC recommends the Washington Utilities and Transportation Commission ("Commission") approve the Settlement Stipulation. In summary, AWEC finds that the Settlement Stipulation represents a reasonable compromise of the issues that it raised in this proceeding, and accordingly, recommends that the Commission find that it is in the public interest, resulting in rates that are fair, just and reasonable.

II. OVERVIEW OF SETTLEMENT

Q. PLEASE DESCRIBE THE BACKGROUND BEHIND CASCADE'S FILING.

A. On March 29, 2024, Cascade filed with the Commission revisions to its currently effective Tariff WN-U-3 for natural gas service in Washington. In its filing, Cascade proposed a two-year rate plan, with rates effective March 1, 2025, and March 1, 2026. This is Cascade's first Multi-Year rate plan under RCW 80.28.425.

Cascade calculated its revenue requirement using a calendar year 2023 Test Period and made corresponding restating and proforma adjustments to its Test Period results to calculate revenue requirements for calendar year 2024 (RY1) and calendar year 2025 (RY2). In total, Cascade proposed a revenue requirement increase of $43,829,673 for RY1 and $11,669,242 for RY2.

Cascade also proposed a 10.5 percent return on common equity ("ROE"), with a capital structure consisting of 50.285 percent equity, 44.214 percent long-term debt, and 5.501 percent short-term debt. Cascade's combined filing, if approved, would have resulted in a 7.894 percent overall rate of return.

Staff, the Public Counsel Section of the Washington Attorney General's Office ("Public Counsel"), TEP and AWEC filed Response Testimony on September 25, 2024, recommending several adjustments to Cascade's filed case. As a result of formal settlement discussions between all parties, and numerous informal settlement calls and emails, the parties agreed to settle all issues in this Docket, including adjustments to Cascade's revenue requirement, adjustments to Cascade's proposed ROE and capital structure, a review process for small and large projects that are expected to be in service in RY1 and RY2, and rate spread and rate design issues, on the following terms, subject to the approval of the Commission.

Q. PLEASE DESCRIBE THE REVENUE REQUIREMENT AGREED TO IN THE SETTLEMENT STIPULATION.

A. The Settling Parties have agreed to a revenue requirement of $29.779 million in RY1 and $10.814 million in RY2. This is a significant reduction from Cascade's filed case, reducing the increase from $43.8 million to $29.8 million in RY1 and from $11.7 million to $10.8 million in RY2. Based on Cascade's filed case, and the parties' proposed adjustments to Cascade's filing, I find this revenue requirement to be reasonable.

III. COST OF CAPITAL

Q. DID THE REDUCTION IN REVENUE REQUIREMENT INCLUDE AN ADJUSTMENT TO CASCADE'S COST OF CAPITAL?

A. Yes. Cascade initially proposed a 10.5 percent return on equity ("ROE") and a capital structure that included 50.285 percent equity, which resulted in an overall rate of return of 7.894 percent. The Settlement Stipulation significantly reduced Cascade's request. The Settling Parties agree to a 9.5 percent ROE and a capital structure for both rate years that includes 49.5 percent equity, resulting in an overall rate of return of 7.185 percent. Cascade also agreed to remove short-term debt, which, as AWEC discussed in Response Testimony, was inconsistent with how Cascade's capital structure has been considered in the past and inconsistent with the way allowance for funds used during construction are calculated. Accordingly, AWEC was supportive of both the capital structure and the settled ROE. While the settled ROE was higher than AWEC had recommended in

Response Testimony, AWEC was willing to accept the overall settled revenue requirement.

IV. CAPITAL ADDITIONS

Q. DID THE REDUCTION IN REVENUE REQUIREMENT INCLUDE AN ADJUSTMENT TO RATE BASE?

A. Yes. In Response Testimony, I identified several adjustments to Cascade's proposed capital additions, including: (a) the removal of renewable natural gas ("RNG") related additions; (b) adjustments to discrete large projects based on information provided in discovery; and (c) adjustments based on Cascade's historical levels of run rate capital.[1] The Settlement Stipulation includes a reduction to Cascade's initial proposed rate base. This reduction is based on the removal of all RNG projects, with the exception of the Divert RNG project, discussed below. Further, in connection with an agreement on the capital review process identified below, the parties also agreed to establish the rate base of remaining capital projects based on Cascade's Third Supplemental Response to WUTC Staff Data Request No. 46 as described in the Settlement Stipulation, less an adjustment of $600,000 for run rate capital items as mentioned below. The updated plant forecast includes removal of the Kitsap Lateral Expansion Phase V (FP-302595) from this case and moving the 20-inch Burlington Transmission Reinforcement project (FP-322776) and the 8-inch Aberdeen HP Reinforcement Wishkah Road project (FP-321879) from 2024 to 2025. Further, the Settling Parties also agree to a $600,000 run rate revenue requirement reduction related to general capital projects for both RY1 and RY2. While

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[1] Mullins, Exh. BGM-1T at 21:6-35:2.

AWEC believed that a significantly larger adjustment was warranted for run rate capital, and there is continued uncertainty regarding the expected in-service dates of certain large discrete projects, AWEC was willing to accept these provisions because of the capital review process included in the Settlement Stipulation discussed below.

Q. HOW DID THE SETTLING PARTIES AGREE TO ADDRESS THE REVIEW OF PLANT INCLUDED IN THE REVENUE REQUIREMENT?

A. Critical to AWEC's position in this case was the recommendation that large discrete projects be subject to a project-by-project review. In Response Testimony, I recommended a project-by-project capital review for all projects exceeding $1 million. In the Settlement Stipulation, the Settling Parties reached a compromise on recovery for plant and agreed generally to a portfolio review for plant projects less than $3 million (except for two projects in Kennewick and Richland) and a project-by-project review for plant projects of $3 million or more (plus the two projects in Kennewick and Richland). The projects in Kennewick and Richland that will be subject to project review are the South Kennewick Gate and Reinforcement Project (FP-320034, FP-319057, FP-319061) and the Richland HP Reinforcement Project (FP-320155, FP320144, FP-320159). Notably, for the project-by-project review, Cascade would not be provided the opportunity to net overspending on one project with underspending on another, and vice versa. AWEC views this as a significant protection for customers.

Q. WAS THE ANNUAL REVIEW OF PLANT INCLUDED IN THE REVENUE REQUIREMENT IMPORTANT TO AWEC?

A. Yes, the costs that are being included in rates are based on amounts that are deemed to be prudent. Any spending more than the budgeted and approved amount, however, is not being evaluated for prudence in this case. This is important, because there were many alternatives to the specific capital projects that Cascade identified in its integrated resources plan ("IRP"). If spending is ultimately higher than it expected for a particular project, it may have been more beneficial to pursue one of the alternatives described in the IRP. For small projects, with capital budgets of less than $3 million, the parties agreed to a portfolio review process in which Cascade can use unspent funds on one project on other projects in the portfolio. For larger projects, such as a major investment in a system reinforcement, Cascade needs to be held accountable to its budget estimates. Underspending or under-execution of one project does not allow overspending on another. Accordingly, a project-by-project review is the most equitable way to do a capital attestation, with a focus on the greatest number of projects possible.

Q. PLEASE DESCRIBE THE ANNUAL REPORTING REQUIREMENT FOR PLANT.

A. The Settling Parties have agreed to an annual reporting requirement for the provisional plant that I find to be reasonable. Cascade will file an annual provisional plant report by April 30th each year, and non-Company parties will have six months to review the report. The annual report will include the following elements, which are intended to compare the actual projects and the Commission-authorized projects: (a) Actual costs versus authorized costs, as well as explanations for significant cost variances, defined as variances greater than 10 percent or $500,000 from the authorized cost; (b) Actual in-service date by month and year; (c) Any material changes to the project descriptions; (d) In the case of significant cost overruns, an update to the project description that includes the justification to continue to invest in the project; (e) Updated information (if any) on offsetting factors for any Funding Projects; (f) Detailed description of any Funding Projects not approved by Commission Order; (g) All data and information included in the Company's annual provisional plant report will include the same level of detail expected in a general rate case filing pursuant to WAC 480-07-510(3)(a), (c), (h), (i), and (4); (g) Compare actual used and useful plant with the level of plant included in provisional rates, thus applying a refund that is consistent with the property valuation statute, RCW 80.04.250; (h) Demonstrate all offsetting benefits received or for which it has applied for through the Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act (IIJA) for all provisional plants; (i) Reporting on all IRA/IIJA funding, tax benefits, or any other benefit for which the Company has applied and the reason justifying any decision not to pursue IRA and IIJA funding options for which the Company may be eligible. I believe the information provided in the annual provisional plant report will enable the parties and Commission to determine if the plant was prudently incurred.

Q. IS ANY OF THE PROVISIONAL PLANT INCLUDED IN THE REVENUE REQUIREMENT SUBJECT TO REFUND?

A. Yes. The Settlement Stipulation includes a refund mechanism that is intended to ensure that any amounts associated with plant deemed imprudent or not used and useful are returned to customers. The process is designed to protect customers by requiring that capital investments included in RY1 and RY2 are subject to review and any necessary refunds are issued to customers.

Q. HOW DOES THE SETTLEMENT STIPULATION ADDRESS PLANT ASSOCIATED WITH RNG PRODUCTION?

A. Consistent with AWEC's recommendation, all plant associated with RNG has been removed from this case with one exception. The exception is the plant associated with connecting the Divert, Inc. ("Divert") project to Cascade's distribution system. Divert will become a new Cascade Rate Schedule 663 transportation customer and the cost to connect Divert is determined in accordance with Cascade's Extension of Distribution Facilities Rule 8. The Settling Parties agree that Cascade will reduce the proposed revenue requirement associated with connecting Divert to account for Divert revenues as recommended by AWEC.

Removing the RNG projects from this filing is appropriate because the projects only benefit sales customers and it is not yet known what portion of the projects will be used for Washington customers, as Cascade has represented in Oregon that those same RNG investments may be used for compliance with Oregon Senate Bill ("SB") 98. Settling Parties agree, however, that Cascade may file a request to include the plant associated with RNG production in its Climate Commitment Act (Schedule 700) annual recovery filing. The non-Company parties are free to support, oppose, or request modifications to any such filing.

V. OTHER ISSUES

Q. HOW DID THE SETTLEMENT STIPULATION RESOLVE THE ISSUE AWEC RAISED REGARDING ACCUMULATED DEPRECIATION?

A. In Response Testimony, I proposed a revenue requirement adjustment of $1,638,000 in RY1 and $79,037 in RY2 to account for a mismatch in the way Cascade calculated its accumulated depreciation.[2] As a part of the compromise reached in the Settlement Stipulation, AWEC agreed to withdraw that issue as the overall Settlement Stipulation provided value to customers even though I remain concerned with the way accumulated depreciation was presented in Cascade's filing.

Q. HOW DID THE SETTLEMENT STIPULATION RESOLVE LABOR EXPENSES?

A. In Response Testimony, I identified errors in the way Cascade calculated labor expenses, and also demonstrated that changes in Cascade's labor capitalization rates would reduce revenue requirement.[3] Based on these concerns, I recommended a $1,493,570 reduction to revenue requirement in RY1 and a $598,317 reduction to revenue requirement in RY2.[4] The Settlement Stipulation provided for a $100,000 reduction to labor expenses. While this amount was less than AWEC had recommended in Response Testimony, Cascade had identified that its union labor rate increase was approved at a level that exceeded the levels included in its initial filing and reflected in my adjustments. Accordingly, considering the net effect of these changes and the outcome of the Settlement Stipulation, I found the $100,000 adjustment to be reasonable.

Q. HOW DID THE SETTLEMENT STIPULATION ADDRESS DIRECTORS' AND OFFICERS' ("D&O") EXPENSES?

A. In Response Testimony, I had recommended a $167,338 reduction to RY1 revenue requirement to account for D&O expenses that Cascade had inadvertently included in

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2 Mullins, Exh. BGM-1T at 37:18-20.
3 Mullins, Exh. BGM-1T at 38:1-43:5.
4 Mullins, Exh. BGM-1T at 43:4-5.

revenue requirement and to remove stock awards.[5] Of particular importance to AWEC was ensuring that no D&O stock awards are reflected in revenue requirement because those are explicitly designed to align the interest of directors and officers with the interests of shareholders, not ratepayers. The settlement resolved this issue by accepting AWEC's full adjustment.

Q. HOW DID THE SETTLEMENT STIPULATION RESOLVE RATE CASE EXPENSES?

A. In its filed case, Cascade included an adjustment to account for $2.9 million in rate case expenses. In Response Testimony, I recommended that Cascade's proposed adjustment for rate case expense be removed from revenue requirement, resulting in a $1,525,094 reduction to revenue requirement in RY1.[6] The Settlement Stipulation resolves this issue by accepting one-half of AWEC's adjustment, or $763,000. Given that this case is not being fully litigated, AWEC found the Settlement Stipulation reduction in Cascade's rate case expenses to be reasonable in the context of the overall settlement.

Q. HOW WERE LEGAL EXPENSES CONSIDERED IN THE SETTLEMENT STIPULATION?

A. In Response Testimony, I recommended a $404,491 reduction to RY1 revenue requirement to account for certain legal expenses that were not appropriate to allocate to Washington ratepayers, such as expenses litigating state building codes and civil penalties.[7] In the Settlement Stipulation, the Settling Parties agreed to remove these amounts from revenue requirement.

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[5] Mullins, Exh. BGM-1T at 46:1-47:2
[6] Mullins, Exh. BGM-1T at 47:3-48:7.
[7] Mullins, Exh. BGM-1T at 48:8-23.

Q. HOW DID THE SETTLEMENT STIPULATION RESOLVE PENSION EXPENSE?

A. In response testimony, I noted that Cascade's pension was effectively fully funded and that, considering recent market returns, no pension expense would be expected in the rate plan period.[8] Accordingly, I proposed a revenue requirement adjustment of $686,367 and $804,497 to RY1 and RY2, respectively. The Settlement Stipulation applies the RY2 adjustment I had recommended, but not the RY1 adjustment. The reason for not accepting the RY1 adjustment was that the RY1 pension expense had already been calculated, and the calculation was performed prior to the increase in market returns experienced recently.

Q. DOES THE SETTLEMENT STIPULATION ALSO RESOLVE ADJUSTMENTS RELATED TO WORKING CAPITAL AND PROPERTY TAXES PROPOSED BY STAFF?

A. Yes. The Settlement Stipulation includes adjustments of $1,382,000 and $10,000 considering Staff's working capital and property tax adjustments. While AWEC did not raise these issues, it was supportive of them and their inclusion in the final settled revenue requirement.

Q. WHAT DID THE SETTLING PARTIES AGREE WITH RESPECT TO RATE SPREAD AND RATE DESIGN?

A. Because of the magnitude of the rate increase, the Settling Parties agree to an equal percent of margin increase for each rate schedule. AWEC believes the rate spread fairly balances the interest of the parties and results in rates that are fair, just, and reasonable.

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[8] Mullins, Exh. BGM-1T at 49:1-50:17.

VI. PUBLIC INTEREST

Q. PLEASE EXPLAIN WHY THE SETTLEMENT STIPULATION SATISFIES THE INTERESTS AND CONCERNS OF AWEC.

A. Based on its review of Cascade's filing and through the discovery process, AWEC was most concerned with the requested ROE and capital structure; several revenue requirements adjustments; the magnitude of the plant investments; the RNG projects included in the filing; rate spread and rate design; and the overall size of the proposed increase. Although the Settlement Stipulation does not incorporate all of the issues AWEC addressed in testimony, it incorporates many of AWEC's positions that benefit customers. Overall, it results in a major reduction from the rate increase that Cascade had included in its filing. As a whole, AWEC believes the Settlement Stipulation is fair and provides a significant benefit to customers as compared to Cascade's filed case.

Q. PLEASE EXPLAIN WHY AWEC BELIEVES THE SETTLEMENT STIPULATION IS IN THE PUBLIC INTEREST.

A. AWEC believes the Settlement Stipulation is in the public interest and recommends the Commission approve the Settlement Stipulation because the best interests of Cascade's natural gas customers are served by the underlying fair compromise on certain revenue requirement, ROE and capital structure, rate spread and design, and other issues included in the Settlement Stipulation. While the signing parties may each hold different positions on the individual components of Cascade's natural gas revenue requirement addressed in the Settlement Stipulation, AWEC supports the settlement, which reduced Cascade's initial filing from $43.8 million to $29.8 million in RY1 and from $11.7 million to $10.8 million in RY2. It also provides a potential for ratepayers to secure further reductions through the capital review process if Cascade's actual capital transferred to plant differs from that considered in the Settlement Stipulation. AWEC supports the Settlement Stipulation as an overall result that is a fair compromise between Cascade and its customers. For the reasons set forth above, AWEC believes the Settlement Stipulation is in the public interest and should be approved by the Commission.

Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?

A. Yes.