

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 390

In the Matter of

CASCADE NATURAL GAS
CORPORATION,

Request for a General Rate Revision.

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OPENING TESTIMONY
OF THE
OREGON CITIZENS' UTILITY BOARD

July 30, 2020



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OF OREGON
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CASCADE NATURAL GAS) OPENING TESTIMONY OF
CORPORATION,) OREGON CITIZENS' UTILITY
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Request for a General Rate Revision.)
_____)

I. INTRODUCTION

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

2 A. My name is William Gehrke. I am an Economist employed by Oregon Citizens'
3 Utility Board (CUB). My business address is 610 SW Broadway, Ste. 400
4 Portland, Oregon 97205.

5 **Q. Please describe your educational background and work experience.**

6 A. My witness qualification statement is found in Exhibit CUB/101.

7 **Q. What is the purpose of your testimony?**

8 A. My testimony is in response to Cascade Natural Gas Corporation's (Cascade or the
9 Company) direct testimony regarding its 2020 Request for a General Rate
10 Revision, docketed as Oregon Public Utility Commission (Commission) Docket
11 No. UG 390.

12 **Q. How is your testimony organized?**

13 A. In this opening testimony, I address the following issues:

14 A. Cascade's Capital Investments

1 B. Residential Customer Deposits

2 C. Amortization of Decoupling

3 D. Long-Run Incremental Cost (LRIC) Study and Rate Design

4 **II. DISCUSSION**

5 **A. Cascade's Capital Investments**

6 **Q. Please summarize your testimony on this subject.**

7 **A.** After reviewing the Company's proposed plant additions, CUB finds the large
8 balance of projects to be reasonable. However, to ensure customers are only
9 paying for plant that is used and useful in the test year, CUB proposes that the
10 Company file an officer attestation for its capital projects greater than \$200,000 to
11 ensure the projects will be online and serving customers by the rate effective date.

12 **Q. In the Company's opening case, what percentage of increased costs was due**
13 **to expected increased capital investment?**

14 **A.** 70% of Cascade's proposed revenue requirement increase cost is due to plant
15 additions.¹ Cascade is investing in reinforcing and replacing its aging natural gas
16 distribution system. In order to minimize the rate impact of the system upgrades,
17 Cascade has completed system reinforcement projects in phases over the last few
18 years.

19 **Q. In prior dockets, did CUB review many of the major capital projects being**
20 **requested for cost recovery in this docket?**

¹ UG 390 – CNGC/300/Peters/10, lines 11-13 (“Cascade’s 2020 plant additions account for \$3,160,817 of the total revenue requirement increase of \$4,507,842—which is approximately 70% of the proposed increase.”).

1 **A.** Yes. In Docket No. UM 2026, several of the capital projects included here were
2 presented for inclusion in a proposed safety cost tracker mechanism. Although the
3 safety cost tracker mechanism was rejected by the Commission, this general rate
4 case now enables the Company the opportunity to recover the capital costs
5 associated with these projects in rates. CUB reviewed several of the projects
6 included herein as part of our review of Docket No. UM 2026.

7 **Q. What did the Company state in testimony about the capital projects being**
8 **in service?**

9 **A.** The Company stated that all projects are scheduled to be completed and in-service
10 one month prior to the rate effective date.²

11 **Q. Since the Company filed its general rate case, have any capital projects**
12 **been delayed?**

13 **A.** Yes. The Shevlin Park Project has been postponed to 2021 due to COVID-19
14 impacts.³

15 **Q. Does this concern CUB?**

16 **A.** Yes. CUB is concerned that additional projects may be postponed due to delays
17 associated with COVID-19.

18 **Q. Do you have a proposal around capital investments?**

19 **A.** Yes. Based on uncertainty around projects being completed in the next year, CUB
20 proposes that Cascade file for attestation prior to the rate effective date. The officer
21 attestation will include a statement which details that all projects were completed
22 and in service and provide the actual cost of the project. The rate effective date of

² UG 390 – CNGC/300/Peters/11, Lines 2-5.

³ CUB Exhibit 102, 103.

1 this general rate case is in February 2021. Under CUB's proposal, projects not
2 completed by the rate effective date will be removed from customer rates.

3 **B. Residential Customer Deposits**

4 **Q. Please summarize your testimony on this issue.**

5 A. CUB proposes a two-year extension of suspending the residential customer deposit
6 pilot program.

7 **Q. What is the Company's current deposit policy for residential customers?**

8 A. The Company is currently not collecting customer deposits from residential
9 customers through April 1, 2021. In the last general rate case, the Company and
10 stipulating parties agreed to suspend customer deposits for a two-year period of
11 time.

12 **Q. What was the goal of a temporary residential customer deposit suspension?**

13 A. CUB proposed suspending the residential customer deposit program for Cascade in
14 order to evaluate the link between uncollectible customer accounts and customer
15 deposits. The two-year trial program was meant to provide parties data about the
16 link between customer deposits and uncollectible revenue.

17 **Q. Is there a problem with the time period associated with the two-year pilot
18 program?**

19 A. Yes. Unfortunately, the United States is entering an economic recession. Since
20 March 2020, the COVID-19 outbreak and the measures taken to protect public
21 health were severely disrupting economic activity in Oregon. Job losses have
22 increased sharply since March 2020 in the Company's service territory. Moving
23 forward, CUB expects that the number of delinquent customer accounts will be

1 increase in the next year, and Cascade could experience a higher amount
2 uncollectible revenue due to the current economic conditions. Further, CUB
3 believes a customer deposit requirement places an additional burden on Cascade
4 customers who are already experiencing economic turmoil.

5 **Q. When is the residential customer deposit program due to expire?**

6 **A.** The residential customer deposit program is due to expire on April 2021.

7 **Q. Based on current conditions and the goals of the customer deposit pilot
8 program, what is CUB recommendation?**

9 **A.** CUB recommends that the suspension of customer deposits program be extended to
10 April 2023. This extension would provide stakeholders with additional data on the
11 link between uncollectible expense and customer deposits and would help protect
12 economically vulnerable customers during a difficult time.

13 **C. Decoupling Adjustment**

14 **Q. Please summarize your testimony**

15 **A.** CUB proposes that the amortization for the Cascade's Conservation Alliance Plan
16 (CAP) Mechanism be split into two groups: Schedule 101 (residential) and
17 Schedule 104 (Commercial). CUB is proposing to make this change in order to
18 align decoupling rates under the principal of cost causation. This proposal would
19 align the amortization of Cascade's mechanism with the amortization of Avista's
20 decoupling account.

21 **Q. What is the margin revenue?**

1 **A.** Margin revenue is revenue from rates associated with Cascade’s ownership and
2 operation of its natural gas distribution system. Margin revenue does not include
3 the cost of natural gas and other tariffs.

4 **Q. Please describe Cascade’s CAP.**

5 **A.** The CAP allows Cascade to track changes in customer usage and margin revenue
6 due to conservation and weather. There are two deferral account embedded in the
7 CAP mechanism. The first deferral account, the conservation variance deferral,
8 which track non-weather-related margin variation. The second deferral account,
9 the weather variance deferral, tracks difference in margin due to natural variances
10 from normalized weather.

11 **Q. Did the Company and parties recently complete a review of the decoupling**
12 **mechanism?**

13 **A.** Yes. Cascade, AWEC, CUB and Staff completed a review of the decoupling
14 meeting in OPUC docket ADV 1071. In UG 287, parties agreed to conduct a
15 review of the mechanism by January 1, 2020. As a result of this review, parties
16 agreed to make the following changes to Cascade’s mechanism:

- 17 1. Impose a 3% CAP surcharge limit for the CAP deferral. Excess surcharge
18 is deferred to the next period.
- 19 2. No limits on customer refunds due to the decoupling mechanism.
- 20 3. CAP deferrals will accrue at Modified Blended Treasury rate; deferred
21 accounts in excess of a 3% limit will accrue interest at Cascade’s
22 authorized rate of return.

1 **Q. Is CUB proposing to make any substantive changes to the changes agreed**
2 **upon in the decoupling review?**

3 **A.** No. CUB supports the past changes, which decrease the volatility of the
4 decoupling mechanism for residential customers.

5 **Q. What is CUB's proposed change?**

6 **A.** CUB proposes to separate the amortization of conservation and weather variances
7 by rate class. This means the residential customers would only be charged or
8 credited for variances in margin revenue from the residential customers class.
9 Under the current operation of the decoupling mechanism, both residential
10 customers and commercial customers pay the same decoupling rate. CUB's
11 proposed change would separate the commercial class and the residential class,
12 aligning with traditional ratemaking principles of cost causation.

13 **Q. Please describe the residential customer class in Cascade's Oregon service**
14 **territory.**

15 **A.** The residential customer class is the largest customer class in Cascade's service
16 territory. Residential customers have the highest peak day forecast for natural gas
17 usage. As the largest customer class, residential customers pay for the majority of
18 the costs associated with Cascade's natural gas distribution system. Commercial
19 customers and residential customers combined make up approximately 87% of
20 Cascade's margin revenue.

21 **Q. Why separate the amortization of the two customer classes in the**
22 **decoupling mechanism?**

1 **A.** By combining residential customers and commercial customers in the decoupling
2 amortization, the risk of under recovery of margin costs due to weather or
3 conservation is spread among the two customer classes. Under the current
4 arrangement of the decoupling mechanism, residential customers partially bear the
5 non-weather risk associated with commercial business margin collection. The
6 reverse is also true; commercial customers bear the risk associated with residential
7 margin revenue collection due to weather or conservation. This sharing of risk can
8 be beneficial or harmful to residential customers. CUB would prefer to separate the
9 two customer classes under the principle of cost causation.

10 **D. Rate Spread, LRIC, and Rate Design**

11 **Q. Do you have a response to the Company's proposal around residential**
12 **customer's rate design?**

13 **A.** Yes. CUB does not oppose Cascade's proposal to increase the residential
14 customer charge by \$1.

15 **Q. Has there been a general agreement around the rate spread for the current**
16 **rate case?**

17 **A.** Yes. Parties (AWEC, Staff, CUB and Cascade Natural Gas) have reached an
18 agreement in principle on rate spread issues.

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

20 **A.** Yes.

WITNESS QUALIFICATION STATEMENT

NAME: William Gehrke

EMPLOYER: Oregon Citizens' Utility Board

TITLE: Economist

ADDRESS: 610 SW Broadway, Suite 400
Portland, OR 97205

EDUCATION: MS, Applied Economics
Florida State University, Tallahassee, FL

BS, Economics
Florida State University, Tallahassee, FL

EXPERIENCE: Provided testimony for the Oregon Citizens' Utility Board in UE 335, UE 374, UG 344, UG 347, UG 366, UG 388, and UG 389. Worked as an Economist for the Florida Department of Revenue. Worked as Utility Analyst at the Florida Public Service Commission, providing advice on electric rate cases. Attended the Institute of Public Utilities Annual Regulatory Studies program in 2018.

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AWEC DATA REQUEST NO. 8

Date prepared: June 25, 2020

Preparer: Linda Offerdahl

Contact: Christopher Mickelson

Telephone: (509)-734-4549

AWEC DR 8 TO CASCADE:

Please refer to CNGC/200, Darras/14 lines 18 to 20.

- a. When was the future HP main transferred to plant in service?
- b. Is the future HP main included in the proposed ratebase for this case?
- c. If yes, please explain why Cascade considers the future HP main used and useful.
- d. If yes, please provide the gross plant, accumulated depreciation, and depreciation rate for the amounts in ratebase.

Response:

The Shevlin Park Project has been postponed to 2021 due to COVID-19 impacts. The Company will remove this project from the UG390 request in a rebuttal filing.

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Due Date: July 2, 2020

AWEC DATA REQUEST NO. 9

Date prepared:

Preparer:

Contact: Christopher Mickelson

Telephone: (509)-734-4549

AWEC DR 9 TO CASCADE:

Please refer to CNGC/200, Darras/17 lines 4 to 5.

- a. Please identify the 10 most recent outages due to low pressure. Please provide all internal documentation of the outages.
- b. Please refer to OPUC Docket UG 344, NW Natural/800, Karney/Page 27 lines 14 to 16. Please explain why Cascade believes pressures below 20 psig, but above 10 psig will result in outages.
- c. Please provide the criteria for system reinforcement used by each MDU Resources' gas distribution subsidiaries. If the criteria for these subsidiaries differs from Cascade, please explain why.
- d. Please identify all new residential development line extensions or connections made from 2015 to present in the region shown in Figure 5.
- e. Please identify any planned development that Cascade is aware of in Figure 5 that was not included in response to part d above.
- f. Did Cascade make this investment in anticipation of specific new load?

Response:

- a. The outage in the Bend area due to low pressure occurred in February 2018 and impacted fewer than 25 residential customers.
- b. Cascade (and MDU) utilize a design criterion of 20 psig. If it is shown through system modelling that the pressure in the distribution system is operating below 20 psig then a distribution enhancement analysis is triggered and remediation is initiated depending upon how severe the low pressures may be, where they are occurring, and if the low pressures are occurring at temperatures warmer than the peak or design day temperature. Due to the time it takes to

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potentially design and construct a distribution enhancement project, the analysis occurs at the 20 psig design criteria to plan for budgeting projects within a five year time frame.

- c. All of the MDU subsidiaries utilize the 20 psig design criteria for distribution systems that are operating above 20 psig.

Questions d through e above are in reference to the testimony regarding the Shevlin Park Project which has been postponed to 2021 due to COVID-19 impacts. The Company will remove this project from the UG390 request in a rebuttal filing.