

Agenda Date: April 25, 2024  
Item Number: A2

**Docket:** UG-240141  
**Company:** Cascade Natural Gas Corporation

**Staff:** Kody McConnell, Regulatory Analyst, Energy Rates and Services

### **Recommendation**

Issue an order allowing the revised proposed addition to natural gas Tariff WN-3, Schedule 700, Temporary Climate Commitment Act (CCA) Rate Adjustment, to go into effect provisionally on May 1, 2024, with the following conditions:

- (1) All accrued and forecasted Company CCA compliance costs and revenues are subject to a retrospective and comprehensive prudence review and potential ratepayer refund;
- (2) The Company will remove \$1.979 million in accrued and forecast CCA compliance costs relating to implementation consulting and/or research and development;
- (3) Pursuant to the enactment of Engrossed House Bill 2199 (EHB 2199) the Company will remove \$1.129 million in forecast CCA compliance costs relating to forecasted Business and Occupation (B&O) tax on carbon emission allowance auction revenues;
- (4) All refunded B&O tax from 2023 received by the Company will appear as a credit to ratepayers on the update to Schedule 700 to be filed by February 1, 2025; and
- (5) The Company will work with its low-income advisory group to increase enrollment in its Cascade Arrearage Relief and Energy Savings (CARES) program through additional outreach, qualification process enhancements, auto-enrollment, and other means to reach a target of at least 12,000 participants by December 31, 2024, regardless of the outcome of an initiative to repeal the Climate Commitment Act.

### **Summary of Proposed Filing**

On March 1, 2024, in Docket UG-240141, Cascade Natural Gas Corporation (Cascade or Company) filed with the Washington Utilities and Transportation Commission (Commission) proposed revisions to rates under natural gas Tariff WN U-3 to add Schedule 700, Temporary Climate Commitment Act Rate Adjustment. In this filing, Cascade is seeking to establish a new tariff schedule to pass through to ratepayers CCA compliance costs and revenues recorded by the Company in 2022 and 2023 and projected through the end of 2024. Per Order 01 filed February

28, 2023, in Docket UG-220759 the Company is deferring both its accrued costs and revenues, respectively, into FERC 182.3 and 254. Cost recovery for the temporary rate adjustment filing is an 11-month period beginning May 1, 2024. Cascade will file an update to Schedule 700 no later than February 1, 2025, to true-up forecasts to actuals with an effective date of April 1, 2025.

Cascade's proposed Schedule 700 would establish a volumetric charge rate of \$0.35701 per therm applied to current ratepayer schedules to recover net deferred CCA compliance costs and establish a seasonally adjusted, load-shaped, and non-volumetric billing credit to return to ratepayers \$138.8 million in deferred benefits. The proposed tariff revision represents a \$31.25 million increase in net costs to be recovered from ratepayers. A non-low-income residential ratepayer using the system-wide ratepayer class average of 55 therms per month with installed service on or before July 25, 2021, will see a billing increase of \$2.83 per month, or 3.69 percent. If service was installed after July 25, 2021, the billing increase will be \$19.13 per month, or 24.93 percent. All known low-income residential ratepayers will receive a credit that fully offsets the volumetric CCA compliance cost charge rate, resulting in \$0.00 bill impacts for those ratepayers, regardless of whether their service was installed before, on, or after July 25, 2021.

### **Discussion of Issues**

This filing is the last of the inaugural round of cost recovery requests specific to CCA statutory compliance obligations by Washington's four investor-owned natural gas utilities regulated by the Commission. Policymakers are now able to consider this filing with a more familiar first impression. In evaluating the reasonableness, fairness, justness, and sufficiency of these rate adjustments, the Commission traverses a still novel domain of regulatory craft requiring careful consideration of various factors, including a thoughtful balancing of equities. Commission Staff's recommendation to approve the tariff revision with conditions, subject to later prudence review, true-up, and potential refund is grounded in the regulatory principle of intercompany equity prevailing over the certainty of measurable projected costs. The Company's forecasts for carbon emission market costs and revenues, while remaining uncertain, are deemed reasonable and in line with those of other natural gas utilities regulated by the Commission. However, Commission Staff believes that the Company's proposed costs should be modified to reflect a reduction in collections for forecast B&O tax and to remove costs associated with consulting.

The recommendation of Commission Staff is informed by prior Commission actions in Dockets UG-220803 and UG-231044 (Avista Corporation); UG-220926 and UG-230819 (Northwest Natural Gas Company); UG-220750 and UG-220759 (Cascade Natural Gas Corporation); and UG-220795, UG-230470, UG-230471, UG-230756, and UG-230968 (Puget Sound Energy).

#### *Emission Allowance Forecasts*

Deliberation is warranted and policy discretion is needed as to determining the most appropriate regulatory approach in evaluating the approval of forecast carbon emission allowance costs and revenues for the Company in 2024. At the time of filing on March 1, 2024, no price actuals were available for carbon emission allowance auction activities within the current calendar year. The 2024 forecast for allowance purchase costs by Cascade are on average 2.5 percent lower than the

projections approved by the Commission for Northwest Natural Gas Company in Docket UG-230819 on December 22, 2023. Results from Washington's first quarter 2024 carbon emission allowance auction reflect considerable instrument price depreciation stemming primarily from market insecurities surrounding the pending initiative to repeal the Climate Commitment Act. In its filing, Cascade anticipates total 2024 carbon emission allowances costs and revenues to be, respectively, 17 percent and 10 percent higher than the costs and revenues accrued in 2023. Commission Staff is extremely cautious when speculating about future market behavior and pricing but cannot rule out the possibility that actual allowance costs and revenues could deviate from Company forecasts as much as perhaps 25 to 35 percent if this downside volatility persists.

#### *Disallowance of Consulting Costs*

In preceding CCA compliance cost recovery filings in 2023, the Commission has not authorized the recovery of costs related to research and development into Company compliance strategies. As previously described, the recommendation of Commission Staff to approve the Company's forecast allowance costs and revenues is grounded in the regulatory principle of intercompany equity. Concordantly, \$1.979 million in total costs for CCA compliance consulting fees should be disallowed for ratepayer recovery. Removing consulting cost from the recovery period decreases by approximately \$0.24 the monthly bill impact for residential ratepayers using a system-wide class average of 55 therms per month with service installed on or before July 25, 2021.

#### *Disallowance of B&O Taxes*

Pursuant to the enactment of EHB 2199 on April 1, 2024, Commission Staff believes that it is appropriate to disallow for recovery the forecasted \$1.129 million in B&O tax remittance related to carbon emission allowance auction revenues. Removing forecast B&O tax costs decreases by approximately \$0.14 the monthly bill impact for residential ratepayers using a system-wide class average of 55 therms per month with service installed on or before July 25, 2021. At the time of the submission of this memorandum, Commission Staff has been notified that Cascade intends to fill a revised proposed tariff Schedule 700 to remove 2024 forecast B&O tax costs. Additionally, B&O tax refunds received by the Company from the Department of Revenue must be accounted for as a credit to ratepayers on the Schedule 700 true-up filed no later than February 1, 2025.

#### *Comments of Interested Parties*

Commission Staff has engaged public ratepayer advocates, Company representatives, industry associations, affiliated agencies, and independent interest groups in performing its analysis. Both the Northwest Energy Coalition (NVEC) and The Energy Project (TEP) are supportive of the recommendation of Commission Staff with the following condition:

Cascade will work with its low-income advisory group to increase enrollment in its CARES energy assistance program through additional outreach, qualification process enhancements, auto-enrollment, and other means to reach a target of at least 12,000 participants by December 31, 2024. This condition will remain in effect regardless of the outcome of an initiative to repeal the Climate Commitment Act.

The Company began providing written notice to ratepayers on March 1, 2024, the same day this proposed revision was filed. The Consumer Protection Division is collaborating on additional ratepayer outreach efforts which will commence following Commission approval of firm cost recovery figures. No other public comments on this filing have been received to date.

#### *Billing Statement Itemization*

In similar filings some discussion has surrounded the practice of the separate itemization of CCA compliance charges and credits on customer billing statements as compared to their inclusion into base charges. It remains the long-standing practice of Cascade to itemize customer billing statements for various charges and fees apart from their basic service charge including for energy assistance and conservation programs and decoupling mechanisms. The Company intends to continue this practice with CCA compliance charges and credits on customer billing statements.

#### *Policy Considerations*

The regulatory framework surrounding the CCA remains an active area of investigation in policy Docket U-230161. There is a need for clarity of performance metrics and process for evaluating prudence of forecasted costs and revenues relating to participation in nascent carbon emission markets. Inadequate historical modeling data and an unpredictable initiative status have made these marketplaces highly volatile and have resulted in utilities relying upon forecasting methods that are incapable of providing dependable projections. Moreover, our carbon emission market compliance rules require companies retire only a portion of allowances each year to cover their annual emission obligations with the balance due when the four-year compliance period ends. Multiyear vintage trading, net activities, and derivative hedging strategies are best reviewed for prudence retrospectively through a harmonized regulatory cadence subjecting CCA compliance costs to rigorous examination in a dedicated proceeding of sufficient length for such process.

Focusing on four-year compliance periods also facilitates effective and data-driven risk-sharing mechanisms as prudent risk management benefits greatly from historical experience. Trading behaviors between regulated public utilities and other market participants within linked carbon emission instrument exchanges will provide more insight into developing relative performance measures for benchmarking and provide evidence to assess the potential value to ratepayers of competitive market strategies. Another potential approach to performance-based regulation involves conditioning access to preferential interest rates on deferred accounting balances. This could create incentives to exceed CCA compliance targets during annual or quadrennial periods.

#### **Conclusion**

Commission Staff believes that a revised Schedule 700 is balanced and reasonable with the proposed required conditions. It addresses regulatory lag, is supportive of the broad public interest, represents the closest approximation of the matching principle feasible under unusual circumstances, and serves collective beneficial outcomes that follow the ratepayer burden.