**Exhibit CR-1RT**
**Docket UG-210745**

**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| TREE TOP, INC.,<br><br>Complainant,<br><br>v.<br><br>CASCADE NATURAL GAS CORPORATION,<br><br>Respondent. | DOCKET UG-210745 |

# CASCADE NATURAL GAS CORPORATION

# CONFIDENTIAL RESPONSE TESTIMONY OF CHRISTOPHER ROBBINS

**May 12, 2022**

**REDACTED VERSION**

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## I. INTRODUCTION AND SUMMARY

**Q. Please state your name, business address, and position at Cascade Natural Gas Corporation (Cascade or Company).**

A. My name is Christopher Robbins. My business address is 8113 W. Grandridge Blvd., Kennewick, WA 99336. I am the Manager of the Gas Supply and Gas Control groups within the Company's Gas Supply department.

**Q. Please summarize your educational background and business experience.**

A. I received my Bachelor of Arts degree in Social Science from Washington State University and have worked within the Gas Supply and Gas Control departments at Cascade for 25 years. I have held a management position for the last 18 years. In my current role, I manage the Company's procurement, delivery, and monitoring of natural gas to Cascade's customers.

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

A. The purpose of my testimony is to (1) provide an overview of the terms and conditions of Cascade's Tariff Schedule 663 for Distribution System Transportation Service (Schedule 663) with an emphasis on the process by which transportation customers nominate gas for delivery to Cascade's local distribution system, (2) explain entitlements and why it is essential for Cascade's transportation customers to bring on adequate gas supplies during these critical operational periods, and (3) discuss in detail the February 2021 entitlement period, including Tree Top, Inc.'s (Tree Top) failure to balance its gas consumption with its nominated amounts, and why it was appropriate for Cascade to charge Tree Top overrun entitlement penalties based on Cascade's lawfully filed tariff. I also respond to the direct testimony of Tree Top's witness Bradly G. Mullins (Mr. Mullins) and his claim that the entitlement penalties Tree Top incurred during the February 2021 entitlement period were unreasonable.

**Q. Please summarize your testimony.**

A. In this proceeding, Tree Top seeks refunds for overrun entitlement penalties that it incurred during an entitlement period in February 2021. While Tree Top does not dispute that the penalties charged were based on application of Cascade's tariff, Tree Top asserts that the penalties were nonetheless exorbitant and based on "dysfunctional" market prices, and therefore requests that the Washington Utilities and Transportation Commission (WUTC or Commission) direct Cascade to issue a refund. In my testimony, I explain why the overrun entitlement penalties are necessary to support the integrity of Cascade's system and to protect Cascade's core customers and why the Commission should therefore reject Tree Top's request.

The Company's tariff Schedule 663 provides the terms for distribution system transportation service and requires customers taking service under this schedule to secure gas supply and pipeline transportation capacity services through third party arrangements and to arrange for delivery of gas to Cascade's local gas distribution system. Notably, approximately 70 percent of the gas on Cascade's system is associated with transportation customers, while the remaining 30 percent is gas that Cascade procures to serve its core customers.[1] Schedule 663 requires transportation customers to request to have a physical quantity of customer-owned gas delivered to a specific Cascade receipt point(s) for a specific day, which is a process referred to as "nomination" of gas supplies. It is important for Cascade to receive accurate nominations—and for transportation customers to balance

[1] Cascade understands that for other WUTC-regulated gas utilities this number is between 20 and 30 percent. Response Testimony of Lori Blattner (Blattner), Exh. LB-1T at 13.

their nominated gas with the gas they consume—so Cascade can maintain system integrity and ensure adequate supplies are available to serve its core customers. This is especially important when gas supplies are constrained.

Cascade's Schedule 663 allows Cascade to declare an entitlement whenever Cascade in its sole discretion determines that a critical operational period warrants the need to align nomination more closely with consumption. The upstream pipelines may also declare an entitlement period, and when that occurs, Cascade typically also declares an entitlement period. During entitlement periods, Cascade's tariff requires that Schedule 663 customers match their consumed gas to their nominated gas daily, within a Company-specified tolerance, or be subject to entitlement charges. Overrun entitlement charges incentivize the Schedule 663 customers to bring on adequate gas supplies during critical operational periods by making it more expensive for them to take Cascade's core customer gas than it would be to procure additional gas supplies themselves. Without the charges, these transportation customers will have a financial incentive to shift the risk of gas shortages to Cascade and its core customers, like Tree Top did during the February 2021 entitlement period.

In February 2021, an upstream pipeline, Northwest Pipeline, LLC (Northwest Pipeline), declared an overrun entitlement due to cooler temperatures and customer drafting (consuming more natural gas than was nominated) that was negatively impacting its system balancing capabilities.[2] Cascade initiated an overrun entitlement period shortly thereafter to match that of its upstream pipeline (February 2021 Entitlement Period).[3] Tree Top failed to nominate adequate gas supplies for its facilities on six occasions during the

[2] Robbins, Exh. CR-2, Notice of Feb. 2021 Entitlement at 1.
[3] Robbins, Exh. CR-2, Notice of Feb. 2021 Entitlement at 1.

February 2021 Entitlement Period—including a day on which it used more than 150 percent of the gas it nominated—despite having numerous opportunities to update its nominations throughout the event, thereby incurring overrun entitlement charges of $198,844.86. The inability or unwillingness of Tree Top and other Schedule 663 transportation customers to bring on adequate gas supplies during the February 2021 Entitlement Period shifted the risk of gas shortages to Cascade and its core customers and potentially jeopardized the integrity of Cascade's gas system. The overrun charges Cascade imposed on Tree Top and on these other customers—the revenues from which were credited to Cascade's core customers through its 2021 Purchased Gas Adjustment (PGA) filing—function as necessary financial incentives for correcting this behavior. Therefore, the overrun entitlement charges were reasonable and appropriate, whereas clawing back the refund revenues from Cascade's core customers would be unreasonable and inappropriate.

**Q. Are there any other witnesses testifying on behalf of Cascade in this case?**

A. Yes. Lori Blattner, Cascade's Director of Regulatory Affairs, provides policy testimony explaining why Cascade's Schedule 663 overrun entitlement charges are necessary to incentivize transportation customers to nominate adequate gas supplies during critical operational periods and demonstrating why it would not be appropriate to order Cascade to refund overrun charges that were based on its lawfully filed tariff. Additionally, Ms. Blattner explains how Cascade flowed the February 2021 overrun charge revenues through its 2021 PGA filing and how Cascade would therefore need to claw back these refunds from its core customers should the Commission order Cascade to issue a refund to Tree Top. Furthermore, Ms. Blattner shares Cascade's understanding that it would need to refund all transportation customers who paid overrun charges stemming from the February 2021 event—to avoid any undue discrimination—thereby extending the repercussions of Tree Top's requested relief and further negatively impacting the Company's core customers. Ms. Blattner also responds to certain portions of Mr. Mullins' Direct Testimony and highlights how granting Tree Top's request for extraordinary relief would upset traditional ratemaking principles.

**Q. Are you sponsoring any exhibits in this proceeding?**

A. Yes, I sponsor the following exhibits:

- Exhibit CR-2, Notice of February 2021 Entitlement
- Exhibit CR-3, Cascade's Tariff Schedule 663
- Exhibit CR-4, Tree Top's Agency Agreement with Cost Management Services, Inc.
- Exhibit CR-5, Cascade's Response to Tree Top's Data Request 06
- Exhibit CR-6, Northwest Pipeline Map
- Exhibit CR-7C, February 2021 Overrun Entitlement Charges
- Exhibit CR-8C, February 2021 Tree Top Nomination Audit
- Exhibit CR-9C, Tree Top's Confidential Response to Cascade's Data Requests 13-14
- Exhibit CR-10C, Tree Top's Entitlement Penalties
- Exhibit CR-11C, Excerpt of Cascade's Confidential Response to Tree Top's Data Request 24

## II. OVERVIEW OF TREE TOP'S COMPLAINT

**Q. Please describe the dispute raised in Tree Top's Complaint as you understand it.**

A. This dispute involves Cascade's imposition of overrun entitlement charges based on Cascade's lawfully filed tariff. Cascade calculated and charged Tree Top for Tree Top's unauthorized use of gas during an overrun entitlement period based on the language of Cascade's tariff and maintains that the charges were lawful and reasonable. Tree Top argues that the charges were unreasonable because they were based on an allegedly "dysfunctional market," whereas Cascade maintains that the charges are appropriate and that its tariff is designed to sufficiently incentivize transportation service customers to nominate adequate gas supplies during critical operational periods.

**Q. Please summarize your understanding of Mr. Mullins' arguments and recommendations.**

A. Mr. Mullins argues that it was unreasonable for Cascade to use the Green River market to calculate Tree Top's overrun entitlement charges because that market was "dysfunctional" when Tree Top incurred its charges.[4] Mr. Mullins instead asks the Commission to have Cascade recalculate the charges based on his preferred market—Sumas—and further justifies his claim by asserting that neither Cascade nor its core customers were harmed by Tree Top's failure to bring on adequate gas supplies for each day of the entitlement period.[5] Finally, Mr. Mullins asks the Commission to allow Tree Top to net the nominations and usage of its four facilities over the course of the entitlement period when calculating Tree Top's overrun entitlement charges.[6]

[4] Mullins, Exh. BGM-1CT at 2:2-7.
[5] Mullins, Exh. BGM-1CT at 2:18-3:7.
[6] Mullins, Exh. BGM-1CT at 3:7-8.

**Q. How does Cascade respond to Mr. Mullins' arguments and recommendation to reduce Tree Top's overrun entitlement charges?**

A. First, Cascade's overrun entitlement charges must be 150% of the highest midpoint price for the day at the regional supply pricing points contained in Schedule 663 because Cascade may potentially be exposed to those prices due to natural gas shortages caused by its transportation customers failing to bring on adequate gas supplies during entitlement periods. The overrun charges are a financial disincentive to prevent transportation customers from gaming the system by taking gas purchased by Cascade for its core customers or, if available, excess gas from other Transportation Service Customers, and paying an overrun charge instead of securing additional gas themselves in a higher priced open market. This is true regardless of the underlying causes of the higher prices at the regional supply markets and therefore it was appropriate to base Tree Top's charges on the pricing at Green River.

Second, Cascade acknowledges that its Transportation Service Customers collectively brought on adequate gas supplies during the February 2021 Entitlement Period and that it has not identified any additional costs it incurred because of Tree Top's overruns. However, Tree Top's failure to nominate adequate gas supplies pushed the risk of shortages and exposure to the spot market to Cascade and its core customers. Furthermore, Tree Top's reliance on the scheduling practices of other transportation customers was unfair and violated the terms of Cascade's tariff.

Third, it would be inappropriate to let Tree Top aggregate and net the nominations and usage of its four facilities over multiple days when calculating Tree Top's overrun entitlement charges because this ignores the physical design of the gas system, the terms of the tariff, and the fact that Cascade must balance gas daily or be subject to entitlement charges from the upstream pipeline. Cascade's service territory exists in non-contiguous areas of Washington and Oregon and—due to pipeline constraints—Cascade may not be able to move "excess gas" delivered by Tree Top in one area to another area of Cascade's system. Furthermore, Schedule 663 does not allow for netting nominations and usage across accounts, at least due in part to Cascade's system design. Finally, netting nominations and usage across multiple days could threaten Cascade's system integrity during a critical operational period and expose Cascade to upstream pipeline entitlement charges since Cascade is required to balance its usage ***daily*** and because gas delivered to one area of Cascade's system does not necessarily provide a benefit to other areas. In short, and for the reasons I discuss in greater detail in my testimony, the Commission should reject Mr. Mullins' arguments and recommendations.

## III. SCHEDULE 663 DISTRIBUTION SYSTEM TRANSPORTATION SERVICE

**Q. Please provide a brief overview of Schedule 663.**

A. Schedule 663 is a tariff for transportation service on Cascade's distribution system of customer-supplied natural gas.[7] For purposes of my testimony, I will refer to customers taking service under Schedule 663 as Transportation Service Customers. Schedule 663 requires a Transportation Service Customer to secure both its gas supply and pipeline transportation capacity services through third party arrangements.[8] In other words, the customer purchases its own natural gas—through a marketer—and arranges for that gas to be transported through an upstream pipeline to Cascade's local gas distribution system.

[7] Robbins, Exh. CR-3, Schedule 663 at 1.
[8] Robbins, Exh. CR-3, Schedule 663 at 1.

Cascade then delivers natural gas to the customer using Cascade's gas distribution system.[9] Service under Schedule 663 is subject to both curtailment (limiting the amount of gas that a customer may use) and entitlement (creating a financial incentive to align gas supply with consumption).[10]

**Q. Does Schedule 663 require the involvement of other parties?**

A. Yes. A Transportation Service Customer must execute a service agreement with Cascade[11] and must designate an agent (Supplier) who has authority to nominate natural gas supplies on Cascade's distribution system for delivery on the customer's behalf.[12] The Supplier is the customer's designated representative who, among other things, submits and receives notices for the customer and makes nominations on the customer's behalf.[13] To put it another way, the Supplier serves as the customer's agent in connection with service from Cascade under Schedule 663.

**Q. Did Tree Top designate a Supplier to act on its behalf as required by Schedule 663?**

A. Yes. Tree Top notified Cascade in writing on or about June 19, 2018 that it had made Cost Management Services, Inc. (CMS) its exclusive agent to act on in its behalf "in all natural gas matters, including but not limited to, the supply, the procurement and the billing of natural gas for and on behalf of [Tree Top] for services commencing April 1, 2019."[14]

**Q. Please describe CMS' responsibilities as they relate to the matter at issue in this**

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[9] To be clear, the gas the customer arranges to have brought to Cascade's system is not necessarily, and not likely to be, the same gas that the customer uses. The general framework of Schedule 663 is that the customer "nominates"—or brings on—an amount of natural gas for a given day meant to equal the amount of natural gas it will use during that day.

[10] Robbins, Exh. CR-3, Schedule 663 at 1.

[11] Robbins, Exh. CR-3, Schedule 663 at 3.

[12] Robbins, Exh. CR-3, Schedule 663 at 4.

[13] Robbins, Exh. CR-3, Schedule 663 at 4.

[14] Robbins, Exh. CR-4, Tree Top's Agency Agreement with CMS at 4. The agency agreement uses the term "marketer," which in this context has the same meaning as "supplier" as used in Cascade's Schedule 663. *See* Robbins, Exh. CR-4, Tree Top's Agency Agreement with CMS at 1-2.

**proceeding.**

A. CMS procures natural gas on Tree Top's behalf and arranges for that gas to be delivered through an upstream pipeline to Cascade's distribution system.

**Q. Please explain your understanding of how this process works.**

A. My understanding is that Tree Top works with its Supplier to identify the amount of gas it anticipates using for the month and has its Supplier procure and secure delivery of that gas—through one of the upstream pipelines to which Cascade is connected—to a Cascade receipt point for injection into Cascade's local distribution system. The amount of gas that Tree Top has delivered to a Cascade delivery point on a given day should align with the amount of gas that Tree Top nominated for that day.

**Q. What does it mean to "nominate natural gas"?**

A. A nomination is a request to have a physical quantity of customer-owned gas delivered to a specific Cascade receipt point, or multiple receipt points, for a specific gas day,[15] as a gas day is defined in Cascade's tariff (Gas Day).[16] Nominations are not considered final until confirmed by the upstream pipeline.

**Q. Please explain the process a Transportation Service Customer must follow to nominate gas.**

A. As Cascade explained in its response to Tree Top's Data Request No. 6,[17] Schedule 663 customers must nominate daily gas volumes (Daily Nomination) by completing a form within Cascade's Electronic Bulletin Board (EBB) system. Cascade must receive

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[15] Robbins, Exh. CR-3, Schedule 663 at 4.

[16] Schedule 663 uses the term "gas day" as defined in Cascade's tariff Rule 2: "A twenty-four-hour period beginning daily at 7:00 a.m. Pacific Clock Time (PCT), which is Pacific Standard Time or Daylight Savings Time in Kennewick, Washington, whichever is effective at the time of reference. Company's Gas Day coincides with the Gas Day established in Northwest Pipeline's tariff, which may change from time to time, upon approval of the Federal Energy Regulatory Commission (FERC)."

[17] Robbins, Exh. CR-5, Cascade's Resp. to Tree Top's DR 06.

nominations no later than 12:00 p.m. Central Clock Time (CCT) the day prior to the Gas Day for those nominations to be considered timely.

**Q. Please explain what it means for a nomination to be considered "timely."**

A. Customers must nominate gas for the following Gas Day by 12:00 p.m. CCT to ensure access to contracted primary firm capacity on the upstream transmission pipeline. Customers that do not submit their nominations prior to the Timely Cycle risk not being able to secure sufficient upstream pipeline capacity to bring their gas to Cascade's system.

**Q. Can a Transportation Service Customer nonetheless change its Daily Nomination?**

A. Yes. Transportation Service Customers can continue to modify their nominations throughout each Gas Day per the cycle deadlines below, but nominations for a given Gas Day will not be accepted after the Post ID cycle deadline (i.e., will not be accepted later than 9:00 a.m. CCT the day *after* the Gas Day).[18]

<u>Cascade Nomination Cycle Deadlines</u>

Timely – 12:00 p.m. CCT the day prior to the Gas Day

Evening – 5:00 p.m. CCT the day prior to the Gas Day

Intraday 1 – 9:00 a.m. CCT on the Gas Day

Intraday 2 – 1:30 p.m. CCT on the Gas Day

Intraday 3 – 6:00 p.m. CCT on the Gas Day

Post ID – 9:00 a.m. CCT the day after the Gas Day

As indicated above, Transportation Service Customers should timely nominate gas by 12:00 p.m. CCT for consumption on the following Gas Day but may update their nominations multiple times throughout each Gas Day and may modify their Gas Day

[18] Robbins, Exh. CR-5, Cascade's Resp. to Tree Top's DR 06.

nominations the day after the Gas Day, until 9:00 a.m. CCT.

**Q. How would untimely updates be treated for purposes of calculating penalties?**

A. All gas nominations made prior to 9:00 a.m. CCT the day after the Gas Day would be considered properly made for purposes of determining penalties. Therefore, Tree Top, like all Schedule 663 customers, has multiple opportunities to bring on adequate gas supplies for each Gas Day—both before, during, and even after each Gas Day.

**Q. Is the process for nominating gas the same during both normal operating conditions and entitlement periods?**

A. Yes. Cascade utilizes the same process for receiving and confirming nominations both during normal operating conditions and entitlement periods.

**Q. Are there any special requirements for gas nominations made after normal business hours, on weekends, and on holidays?**

A. Yes. In addition to entering the nomination in Cascade's EBB, nominations made after normal business hours, on weekends, and on holidays must be accompanied by an email to Cascade's gas scheduling group.

**Q. Mr. Mullins stated that Tree Top's ability to nominate gas during the February 2021 Entitlement Period was limited because of the holiday weekend.[19] Do you agree?**

A. No. Mr. Mullins alleges that Tree Top faced a nomination deadline of 9:00 a.m. Pacific Time (PT) on Friday February 12, 2021, to purchase day ahead gas for Gas Days February 13, 2021, through February 16, 2021.[20] However, as I previously stated, Tree Top had multiple opportunities over the Presidents Day weekend to update its gas nominations and—as I will discuss in greater detail later—did update its nominations at all four of its

[19] Mullins, Exh. BGM-1CT at 12:11-12.
[20] Mullins, Exh. BGM-1CT at 12:12-20.

plants over that weekend.

**Q. What is the purpose of the nomination process?**

A. The nomination process is the mechanism by which transportation customers inform Cascade of the amount of gas they are bringing onto Cascade's system and it allows Cascade to manage its system by giving Cascade the opportunity to review and confirm the nominated gas volumes with the upstream pipeline company. The process allows the customer—who knows more about its forecasted gas needs than Cascade—to ensure that it brings on adequate supplies to satisfy its usage and avoid imbalances.

**Q. What is an imbalance?**

A. An imbalance is the difference between a confirmed nomination and the volume of gas actually used by or delivered to a customer—like Tree Top—under Schedule 663 for a defined period of time.[21] A "positive imbalance" exists when the volume of transportation gas confirmed for a customer's account is greater than the volume of gas used and a "negative imbalance" exists when the volume of transportation gas confirmed for a customer's account is less than the volume of gas used.

**Q. Why is it important for transportation customers to avoid imbalances?**

A. Schedule 663 provides transportation service on Cascade's distribution system of customer-supplied natural gas. However, Cascade does not—and physically could not—reliably deliver to the transportation customer the specific gas the customer brings to Cascade's system. Cascade does not purchase or store gas for its transportation customers. Nor does Cascade contract for pipeline transmission capacity sufficient to meet the needs of its transportation customers, and Cascade does not "shut off" a transportation customer

[21] Robbins, Exh. CR-3, Schedule 663 at 4.

once it has consumed an amount of gas equal to the amount it nominated plus any additional tolerance percentage specified for the entitlement period. Therefore, when a transportation customer incurs a negative imbalance, it has done so by using gas that Cascade purchased for its core customers or by relying on the positive imbalances of other transportation customers.

**Q. What are some potential impacts of negative imbalances?**

A. Cascade always strives to provide firm service to its core customers. Supply shortages caused by transportation customer negative imbalances could require Cascade to seek gas on the open market or utilize its core customer storage assets to ensure it has sufficient supplies to serve its core customers. It would be unfair for transportation customers—who are the only ones who can manage their nominations and consumption—to shift the risk of these shortages to Cascade and its core customers.

**Q. Mr. Mullins alleges that "the reliable operation of Cascade's…system is rarely impaired."[22] Do you agree?**

A. No. While a single transportation customer's imbalance is unlikely to cause system integrity issues, the cumulative effect of transportation customer imbalances could threaten the integrity of Cascade's system, especially because transportation customers account for approximately 70 percent of Cascade's load. Therefore, Cascade's system would be heavily impaired if Cascade did not use overrun entitlement charges as a financial incentive for transportation customers to bring on adequate gas supplies during critical operational periods.

**Q. Are Transportation Service Customers typically able to correct imbalances?**

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[22] Mullins, Exh. BGM-1CT at 9:5.

A. Yes. As I previously stated, a Transportation Service Customer can correct a daily imbalance as soon as the following Gas Day by updating its nomination before the 9:00 a.m. CCT Post ID nomination cycle deadline. Aside from this day-after correction, a Schedule 663 customer must satisfy any monthly imbalance within 45 non-entitlement days after being notified by Cascade that it has a monthly imbalance greater than five percent.[23]

**Q. What is the result if a customer does not satisfy a monthly imbalance condition?**

A. Cascade will bill the customer an imbalance penalty of $10.00 per MMBtu of the imbalance volume if the customer does not completely satisfy the imbalance condition within 45 non-entitlement days.[24]

**Q. Are there any circumstances during which imbalances pose a particular threat to Cascade's system?**

A. Yes, it is particularly important for Transportation Service Customers to bring on adequate gas supplies during entitlement periods because of the potential for supply shortages that exists when Cascade or its upstream providers declare an entitlement.

## IV. SCHEDULE 663 ENTITLEMENTS

**Q. Please provide a brief overview of Schedule 663 entitlements.**

A. Cascade may declare an entitlement on any day Cascade, in its sole discretion, reasonably determines a critical operational period warrants the need.[25] During an entitlement period, a Transportation Service Customer must balance its prescheduled natural gas usage with its actual gas usage within a certain threshold percentage daily or be subject to overrun or

[23] Robbins, Exh. CR-3, Schedule 663 at 7.
[24] Robbins, Exh. CR-3, Schedule 663 at 7.
[25] Robbins, Exh. CR-3, Schedule 663 at 8.

underrun entitlement charges on its unauthorized gas volumes (Entitlement Period).[26] The purpose of Cascade's entitlement charges is to ensure that Schedule 663 customers are properly incentivized to align their gas consumption with their nominations during critical operational periods.

**Q. Why would Cascade declare an entitlement?**

A. Ms. Blattner addresses this in greater detail in her Policy Testimony,[27] but Cascade may determine that a critical operational condition warrants the need to declare an entitlement because of capacity constraints, supply interruptions, supply shortages or excesses, or the existence of other circumstances that threaten to jeopardize system integrity. Cascade may also declare an entitlement to match the entitlement of an upstream pipeline, both to avoid incurring entitlement charges from the upstream pipeline and to help ensure the system integrity of the upstream pipeline.

**Q. How does Cascade notify its Schedule 663 customers of entitlements?**

A. Cascade notifies its Schedule 663 customers of entitlements through emails or telephone calls to its customers' marketing agents (Suppliers).

**Q. What information does Cascade share when declaring entitlements?**

A. Cascade will share the start date, location of affected area, and the percentage variance of imbalance allowed.

**Q. How must Transportation Service Customers modify their behavior during entitlements?**

A. Transportation Service Customers are always responsible for bringing on adequate gas supplies to cover their usage—and may be liable to Cascade for monthly imbalances—but

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[26] Robbins, Exh. CR-3, Schedule 663 at 9.
[27] Blattner, Exh. LB-1T.

during entitlements they must balance their gas consumption with their nominated amounts daily or be subject to overrun or underrun entitlement charges.[28]

**Q. Are there different types of entitlements?**

A. Yes. Cascade will designate each entitlement as either an overrun Entitlement Period (Overrun Entitlement) or underrun Entitlement Period (Underrun Entitlement). During an Overrun Entitlement, a Transportation Service Customer is entitled to take delivered natural gas volumes equal to the amount of natural gas it nominated for that gas day plus a Company-specified tolerance. During an Underrun Entitlement, a Transportation Service Customer is entitled to take less gas than it nominated for that gas day within a Company-specified tolerance.

**Q. Please explain what you mean by a "Company-specified tolerance."**

A. For each Overrun Entitlement and Underrun Entitlement it declares, Cascade will specify the percentage by which a Transportation Service Customer's overruns or underruns may differ from its daily nominations before Cascade will apply entitlement charges.[29] For example, Cascade might declare an eight percent (Stage II) Overrun Entitlement and during such entitlement all delivered volumes exceeding 108 percent of a customer's nominated volumes would constitute Unauthorized Overrun Volumes. As another example, Cascade could declare an eight percent (Stage II) Underrun Entitlement, in which a customer would be entitled to take up to eight percent less natural gas than its confirmed volumes before incurring charges on Unauthorized Underrun Volumes.

**Q. Why does Cascade impose charges for Unauthorized Overrun Volumes and Unauthorized Underrun Volumes?**

[28] Robbins, Exh. CR-3, Schedule 663 at 9.
[29] Robbins, Exh. CR-3, Schedule 663 at 9.

A. Ms. Blattner addresses the policy rationale underlying the entitlement charges in greater detail in her testimony,[30] but the purpose of imposing charges on unauthorized volumes during entitlement periods is to incentivize Transportation Service Customers to nominate as much gas as they plan on consuming during critical operational periods based on their knowledge of their operations and forecasted gas consumption.

**Q. What charges apply to Unauthorized Overrun Volumes?**

A. The overrun charge that the Company will apply to Unauthorized Overrun Volumes will equal the greater of $1 per therm <u>or</u> 150 percent of the highest midpoint price for the day at NW Wyoming Pool, NW south of Green River (Green River), Stanfield Oregon, NW Canadian Border (Sumas), Kern River Opal, or El Paso Bondad supply pricing points (as published in Gas Daily), converted from dollars per dekatherms (Dth) to dollars per therm by dividing by ten.[31] The overrun charge is in addition to the incremental costs of any supplemental gas supplies the Company may have had to purchase to cover the Unauthorized Overrun Volumes, in addition to the regular charges incurred in the Rate section of Schedule 663 and any other charges incurred per the Schedule 663 terms and conditions.[32]

**Q. Why is it important for transportation customers to avoid imbalances during Overrun Entitlements?[33]**

A. As I previously mentioned, Cascade and the upstream pipelines may declare entitlements for a variety of reasons, but typically do so because of capacity constraints, supply

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[30] Blattner, Exhibit LB-1T.
[31] Robbins, Exh. CR-3, Schedule 663 at 9.
[32] Robbins, Exh. CR-3, Schedule 663 at 9.
[33] It is also important for transportation customers to avoid underruns during Underrun Entitlements but my testimony from here on out will focus on Overrun Entitlements because Tree Top incurred its entitlement charges during an Overrun Entitlement.

interruptions, supply shortages or excesses, or the existence of other circumstances that may jeopardize system integrity. These circumstances all threaten the operational integrity of the upstream pipelines and/or Cascade's local distribution system. Furthermore, gas shortages caused by transportation customers' inability or unwillingness to bring on adequate gas supplies may impede Cascade's ability to provide gas to its core customers.

**Q. What charges apply to Unauthorized Underrun Volumes?**

A. The Company charges $1.00 per therm for Unauthorized Underrun Volumes.[34]

**Q. Why are the charges for Underrun Entitlement different than the charges for Overrun Entitlements?**

A. Charging customers 150 percent of the highest midpoint price for the day at the named regional pricing points for Unauthorized Overrun Volumes removes the financial incentive these customers otherwise have to let Cascade or other transportation customers cover their negative imbalances. In contrast to an Overrun Entitlement, Cascade may declare an Underrun Entitlement due to an excess of gas in its system. This situation poses a different set of challenges to Cascade's system in that the oversupply of gas can lead to increased distribution system pressures and Cascade's inability to take its scheduled quantities from the upstream pipeline system.

**Q. How could shortages caused by transportation customer imbalances during Overrun Entitlements threaten the operational integrity of Cascade's local distribution system?**

A. Scheduling shortages leave the upstream pipeline operator with an inadequate supply of natural gas to meet Cascade's core customer requirements and the potential for insufficient

[34] Robbins, Exh. CR-3, Schedule 663 at 9.

pipeline pressure to meet Cascade's needs. If the pipeline cannot deliver the necessary gas pressure to Cascade, Cascade may not be able to meet its core customer delivery obligations throughout its distribution system.

**Q. How could shortages caused by transportation customer imbalances during entitlement periods impede Cascade's ability to provide gas to its core customers?**

A. As discussed earlier, Cascade does not purchase gas for its Transportation Service Customers. Instead, Schedule 663 requires those customers to procure and deliver their own gas to Cascade's distribution system. However, because these customers are connected to Cascade's system, they can continue to consume gas after they have used the entirety of their daily nominated volumes (i.e., the gas they brought onto Cascade's system for the day). Any additional gas they consume is gas that someone else scheduled on the upstream pipeline system—either gas Cascade purchased for its core customers, another utility's gas, or excess gas delivered by other transportation customers. Because Cascade's transportation customers make up approximately 70 percent of Cascade's load, substantial transportation overruns could have a significant impact on Cascade's ability to serve its core customers.

**Q. Can Cascade make up for these potential shortages by purchasing additional gas?**

A. Per its tariff, Cascade does not purchase gas for its transportation customers. In some circumstances, Cascade may use core resources like stored reserves or spot market gas and associated pipeline capacity to balance its system and avoid upstream pipelines penalties. However, Cascade may not have access to additional gas or be able to get the additional gas to where it is needed on Cascade's system due to capacity constraints on the upstream pipeline, insufficient contract pipeline capacity, or constraints on Cascade's distribution system.

**Q. Why wouldn't Cascade have access to additional gas?**

A. As discussed previously, one reason for declaring an entitlement is interruptions to the supply of natural gas caused by issues at production facilities, pipeline ruptures, and similar events that may limit the availably of gas. Therefore, additional gas may not be available for purchase or Cascade may not have the pipeline capacity to deliver additional gas.

**Q. Please explain how capacity constraints could prevent Cascade from getting additional purchased gas to where it is needed on Cascade's system.**

A. Cascade's distribution system is connected to multiple interstate pipelines, providing Cascade access to gas throughout the western United States. However, the ability to purchase gas does not guarantee the ability to move that gas to where it is needed. For example, Cascade may purchase gas from the Green River Basin in Wyoming and would need to move that gas hundreds of miles through the Northwest Pipeline to get it to Cascade's service territory.[35] There is no guarantee that there would be available capacity on Northwest Pipeline to move the gas it purchased to Cascade's system.

**Q. Could Cascade make up for the shortages by pulling gas from local stored reserves?**

A. Possibly, depending on the availability of the Company's stored reserves. Cascade did pull gas from its stored reserves during the February 2021 Entitlement Period. However, stored reserves belong to Cascade's core customers. Using these reserves for Cascade's transportation customers is unfair and shifts the risk of shortages caused by Cascade's transportation customers to Cascade's core customers. Furthermore, Cascade may not necessarily have the pipeline capacity to move gas for transportation customers and may

[35] Robbins, Exh. CR-6, NW Pipeline Map.

not always have enough stored reserves available to make up for supply deficiencies, particularly if a significant number of transportation customers incur negative imbalances.

**Q. How do the overrun charges you described earlier relate to these challenges caused by transportation customer overruns during Entitlement Periods?**

A. The overrun entitlement charges are designed as a financial disincentive to prevent transportation customers from taking lower priced gas purchased by Cascade for its core customers or excess natural gas scheduled by other transportation customers instead of procuring additional gas supplies themselves in the higher priced gas market.

**Q. Why are the overrun charges structured the way you described earlier?**

A. The charges are set at 150 percent of the highest midpoint price for the day at certain regional trading hubs to which Cascade and natural gas marketers are potentially exposed to ensure that transportation customers cannot game the system by taking Cascade's cheaper gas and paying an unauthorized overrun charge thereby exposing Cascade to the higher prices. It is essential for transportation customers to bring on adequate gas supplies—instead of relying on Cascade's core customers or the excess gas, if any, brought on by other transportation customers—during entitlement periods because Cascade may not be able to cover any supply deficiencies due to a potentially constrained market and this would threaten Cascade's system integrity.

**Q. Is Cascade potentially exposed to the markets included in the overrun charge calculation?**

A. Yes. Cascade may purchase gas from a variety of sources, including gas based on the pricing points included in Cascade's Schedule 663 and including at Green River. Cascade's distribution system is connected to the Northwest Pipeline and that pipeline takes gas from all the markets listed in Cascade's Schedule 663. Furthermore, regional constraints and conditions can lead to high prices at any of these markets, which is why it is important that they are all included in Schedule 663.

**Q. Did Cascade select those markets on its own?**

A. No. The market price points in Cascade's Schedule 663 mirror those contained in the Northwest Pipeline's tariff.[36]

**Q. Do you know why Northwest Pipeline selected those markets?**

A. Yes, my understanding is that those are the market pricing hubs that feed natural gas into the Northwest Pipeline system.

**Q. Mr. Mullins asserts that "Cascade is not responsible for procuring the balancing gas to supply" overruns caused by transportation customer imbalances.[37] Do you agree?**

A. Mr. Mullins seems to be confusing two different issues. On the one hand, he says that "Cascade is not responsible for balancing the interstate pipeline,"[38] which is true. However, he also says that "Cascade does not purchase the balancing gas to serve the imbalances of its transportation customers[]," and "[t]o the extent there is an imbalance between the gas nominated and the gas delivered to Cascade's system by a transportation customer, including entitlement overruns, it is Northwest Pipeline that covers the imbalance, not Cascade."[39] I disagree with this latter statement because Cascade, not the pipeline, is responsible for making up for transportation customer-caused imbalances on its system because Cascade, as the point operator, has the ultimate responsibility with the

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[36] Northwest Pipeline, FERC Gas Tariff, Fifth Revised Volume No. 1, § 15.5(a-c), Tree Top Exhibit BGM-5 at 12-13.
[37] Mullins, Exh. BGM-1CT at 23:16-17.
[38] Mullins, Exh. BGM-1CT at 23:9.
[39] Mullins, Exh. BGM-1CT at 23:10-14.

pipeline for ensuring the supply/demand balance at its delivery point.

**Q. To summarize, how do transportation customer entitlement overruns impact Cascade and how do the Schedule 663 overrun entitlement charges help avoid these impacts?**

A. Transportation customers account for a significant portion of the gas load on Cascade's system. The cumulative effect of transportation customer overruns during Overrun Entitlements—when supply or capacity may limit Cascade's access to natural gas—potentially jeopardizes the operational integrity of Cascade's local gas distribution system. Furthermore, when transportation customers consume more gas than they nominate, this potentially threatens Cascade's ability to provide gas to its core customers and exposes Cascade to upstream pipeline entitlement penalties. The Schedule 663 overrun entitlement charges serve as a disincentive to transportation customers to take the gas Cascade purchased for its core customers instead of purchasing higher priced gas themselves on the open market. The overrun entitlement charges must be some factor higher than the prices to which Cascade is potentially exposed to make the charges function as a disincentive.

## V. THE FEBRUARY 2021 ENTITLEMENT PERIOD

**Q. Did Cascade provide advance notice of the February 2021 Entitlement Period?**

A. Yes. Cascade notified its Transportation Service Customers at approximately 7:50 a.m. Mountain Time (MT) on Wednesday, February 10, 2021, that it would initiate a Stage II (8 percent) Overrun Entitlement starting Gas Day Friday February 12 and continuing through Gas Day Tuesday, February 16, 2021 (i.e., the February 2021 Entitlement Period).[40] Cascade's notice indicated that the February 2021 Entitlement Period would apply to all customers on the Northwest Pipeline system and advised customers to align

[40] Robbins, Exh. CR-2, Notice of Feb. 2021 Entitlement at 1.

their nominations to avoid entitlement penalties.[41]

**Q. Why did Cascade declare the February 2021 Entitlement Period?**

A. Cascade declared the February 2021 Entitlement Period to match the entitlement declared earlier that morning by Northwest Pipeline. When an upstream pipeline declares an entitlement, Cascade will typically also declare an entitlement that is equivalent to or more restrictive than that which was declared by its upstream pipeline operator to avoid incurring penalties, minimize exposure to volatility in the market, maintain the integrity of Cascade's distribution system, and ensure Cascade's ability to continue to serve its core customers during constrained conditions.

**Q. Do you know why Northwest Pipeline declared the entitlement on its system?**

A. Northwest Pipeline indicated that it was declaring the entitlement because of "forecasted cooler temperatures and continued customer drafting negatively impacting Northwest's system balancing capabilities."[42] As Mr. Mullins testified for Tree Top, winter storms during this time "produced unprecedented impacts on energy markets, leading to widespread power outages and disruptions in natural gas supplies."[43]

**Q. How was Northwest Pipeline impacted?**

A. As Mr. Mullins further testified, winter storm events in February 2021 "led to a dramatic decline in gas production" and gas supplies near the southern end of "Northwest Pipeline [were] severely disrupted as a result of frozen gas wells, icy roads, power loss, high winds, and mechanical issues."[44] The impacts of these supply shortages were exacerbated by

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[41] Robbins, Exh. CR-2, Notice of Feb. 2021 Entitlement at 1.
[42] Robbins, Exh. CR-2, Notice of Feb. 2021 Entitlement at 1.
[43] Mullins, Exh. BGM-1CT at 18:2-4.
[44] Mullins, Exh. BGM-1CT at 18:6-10.

"cooler temperatures,"[45] which increased demand on the system. Utilities were forced to pay "astronomical market prices…to maintain supplies on their individual systems and avoid curtailments."[46] Cascade's overrun entitlement charges are designed to incentivize transportation customers to procure adequate gas supplies during entitlements to help shield Cascade and its core customers from these market and operational risks.

**Q. What impacts did Cascade potentially face because of the conditions affecting its upstream pipeline?**

A. First, Cascade receives approximately 70 percent of its gas from Northwest Pipeline. Therefore, any supply shortages that cause Northwest Pipeline to underdeliver gas to Cascade could significantly impede Cascade's ability to provide gas to its core customers. Second, Cascade was operating in an entitlement period due to the Overrun Entitlement Northwest Pipeline declared and—similarly to Tree Top—faced overrun entitlement charges[47] for any overruns. Third, as Tree Top alleged in its Complaint, Cascade's entitlement was caused by "weather events and constraints in the region,"[48] that increased demand on Cascade's system and meant Cascade's system was at a greater risk of being harmed by disruptions to its upstream supply.

**Q. Did Cascade incur Overrun Entitlement penalties from Northwest Pipeline during the February 2021 Entitlement Period?**

A. No, Cascade did not incur Overrun Entitlement penalties from Northwest Pipeline. In this particular instance, Cascade and other transportation customers sufficiently overscheduled their requirements such that Cascade did not incur any penalties.

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[45] Robbins, Exh. CR-2, Notice of Feb. 2021 Entitlement at 1.
[46] Mullins, Exh. BGM-1CT at 20:1-2.
[47] Mullins, Exh. BGM-5 at 12-13.
[48] Tree Top Complaint at 3, ¶ 9 (Sept. 24, 2021).

**Q. Did Cascade face shortages during the February 2021 Entitlement Period such that it was unable to provide gas to its core customers?**

A. No, Cascade was able to satisfy the gas demands of its core customers and the transportation customer overruns during the February 2021 Entitlement Period.

**Q. Is Mr. Mullins correct that Cascade "did not trade in the Green River market during [the February 2021 Entitlement Period]"?**

A. Yes. However, although Cascade did not purchase gas based on Green River pricing during this event, Cascade has previously had transactions based on Green River pricing and could be forced to make purchases at Green River in a constrained market.

**Q. Was Cascade forced to purchase gas on the spot market during the February 2021 Entitlement Period due to the overruns of customers like Tree Top?**

A. No. Cascade did not purchase gas in the spot market during the February 2021 Entitlement Period to make up for the failure of certain transportation customers to bring on adequate gas supplies.

**Q. How then was Cascade able to avoid incurring overrun entitlement penalties and able to satisfy the gas demands of its core customers during the February 2021 Entitlement Period?**

A. Cascade was able to rely on its stored reserves to serve its core customers and on the scheduling practices of its other transportation customers to make up for the deficiencies caused by those transportation customers that failed to bring on adequate gas supplies.

**Q. Mr. Mullins states that it "seems illogical, and raises questions of prudency, that Cascade did not make any transactions in day-ahead markets during February**

**2021."[49] Do you agree?**

A. No. Cascade prudently purchases gas for its core customers and its stored gas reserves were sufficient to meet daily demand in February 2021. Cascade's stored reserves were sufficient to satisfy supply deficiencies at least partially due to above normal temperatures in January 2021 that led to lower-than-expected gas usage by Cascade's core customers for that month. As a result, there was no need for Cascade to procure additional gas supplies in the spot market when prices were higher than normal, and Cascade held sufficient reserves.

**Q. Do you therefore agree with Mr. Mullins' assertion that "the only cost associated with Tree Top's imbalance…were the marginal pipeline imbalances applied to Cascade's account with Northwest Pipeline[?]"[50]**

A. Cascade agrees that it has not identified any additional costs it incurred because of Tree Top's overruns. However, it was still reasonable and appropriate for Cascade to impose the Overrun Entitlement charges on Tree Top based on the pricing at Green River because they were authorized by Cascade's tariff and because it would be unfair for Tree Top to avoid responsibility for not bringing on adequate gas supplies simply because—in this instance—Cascade and its core customers were not harmed.

**Q. Why is it still important to maintain the entitlement charges Cascade imposed on Tree Top if Cascade did not incur entitlement penalties or find itself unable to provide gas to its core customers?**

A. The Schedule 663 Overrun Entitlement charges are set at 150 percent of the highest midpoint price for the day at Cascade's regional trading hubs as a financial disincentive to

[49] Mullins, Exh. BGM-1CT at 18:1-2.
[50] Mullins, Exh. BGM-1CT at 18:8-10.

prevent transportation customers or their marketers from gaming the system by taking lower priced gas purchased by Cascade for its core customers and paying a more modest overrun charge instead of securing additional gas themselves in a higher priced open market. The purpose of the overrun charges is to modify behavior and *avoid potential harm*, not to impose charges *only* when Cascade or its customers suffer actual harm. The charges incentivize transportation customers to nominate adequate gas supplies instead of relying on Cascade's stored reserves—which Cascade purchased for its core customers—or relying on other transportation customers who bring on excess supplies. It is unfair for Transportation Service Customers to shift the risk of shortages to Cascade's core customers and refunding a portion of the charges to Tree Top would send the wrong message to Tree Top and other transportation customers.

**Q. Did the penalty structure work to incentivize Tree Top during the February 2021 Entitlement Period?**

A. No. Unfortunately, Tree Top failed to bring on adequate daily gas supplies for one or more of its four accounts multiple times during the February 2021 Entitlement Period despite Cascade's timely notification of the entitlement and despite having numerous opportunities throughout the event to update its nominations.

**Q. Please explain the Overrun Entitlement charges Tree Top incurred.**

A. Tree Top incurred cumulative overrun entitlement penalties of $198,884.86 for the February 2021 Entitlement Period based on the individual charges identified below in Table 1. As shown in Table 1, Tree Top failed to bring on adequate gas supplies six separate times and its margin of error between its nominated volumes and the amount it consumed ranged from 24 to 52 percent.

**Table 1 – Tree Top's February 2021 Overrun Entitlement Charges[51] (Confidential)**

[redacted]

**Q. How could Tree Top have avoided these charges?**

A. Tree Top had a variety of tools at its disposal to avoid these charges. First, Tree Top could have nominated adequate gas supplies in the first instance. Second, Tree Top could have updated its nominations numerous times throughout the event. As I previously mentioned, Tree Top must nominate gas supplies for the following Gas Day by 9:00 a.m. CCT for them to be considered timely. Therefore, for example, Tree Top could have timely updated its nominations for its Prosser plant for Gas Day February 16 by 9:00 a.m. on February 15. However, Tree Top also could have updated its nominations for Gas Day February 16 by 5:00 p.m. CCT on February 15, or by 9:00 a.m. CCT, 1:30 p.m. CCT, or 6:00 p.m. CCT on February 16th. Additionally, Tree Top could have updated its Gas Day nominations by the 9:00 a.m. CCT Post ID cycle deadline on February 17th and avoided the overrun charges if its nominations matched its consumption. Mr. Mullins' claim that Tree Top was required to make its nominations for Gas Days February 13-16 by 9:00 a.m. on Friday, February 12, 2021 to avoid overrun entitlement charges is false.[52] In short, Tree Top had various opportunities to update its gas nominations and avoid the charges, but failed to do so.

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[51] Please see Robbins, Exhibit CR-7C, February 2021 Overrun Entitlement Charges for complete source data. Cascade invoiced Tree Top a total of $198,844.86, but Tree Top paid $198,844.87.
[52] Mullins, Exh. BGM-1CT at 12:13-18.

**Q. Did Tree Top update its nominations over the President's Day Weekend during the February 2021 Entitlement Period?**

A. Yes. As further detailed in Confidential Exhibit CR-8C, Tree Top updated its nominations for its Prosser plant for Gas Day February 15 on both February 13 (Saturday) and February 14 (Sunday) and updated its Gas Day February 16 Prosser nominations on February 14 (Sunday).[53] Tree Top updated its nominations for its Ross plant for Gas Day February 15 on February 13 (Saturday) and updated its Gas Day February 16 Ross plant nominations on both February 13 (Saturday) and 14 (Sunday).[54] Tree Top also updated its nominations for its Selah plant for Gas Day February 15 on February 13 (Saturday) and updated its Gas Day February 16 Selah plant nominations on both February 13 (Saturday) and 14 (Sunday).[55] Finally, Tree Top updated its nominations for its Wenatchee plant for Gas Day February 16 on February 13 (Saturday) and 15 (the Monday holiday).[56] In short, Tree Top updated its nominations throughout the Presidents Day weekend—albeit not enough to cover its actual usage—so I do not understand or agree with Mr. Mullins' claims about a supposed Friday nomination deadline.[57]

**Q. Do you think CMS properly updated Tree Top's nominations based on the information Tree Top provided to CMS?**

A. Referring to Tree Top 000010 [BEGIN CONFIDENTIAL]([redacted]END CONFIDENTIAL] in Tree

[53] Robbins, Exhibit CR-8C, February 2021 Tree Top Nomination Audit at 1, Rows 19, 20, 22, and 27.
[54] Robbins, Exhibit CR-8C, February 2021 Tree Top Nomination Audit at 2, Rows 22, 27-29.
[55] Robbins, Exhibit CR-8C, February 2021 Tree Top Nomination Audit, at 3, Rows 17-18, 23-26, and 28.
[56] Robbins, Exhibit CR-8C, February 2021 Tree Top Nomination Audit, at 4, Rows 27-30.
[57] Mullins, Exh. BGM-1CT at 12:17-20.

Top's Confidential Data Responses No. 13 and 14 [BEGIN CONFIDENTIAL] [redacted]."[59] [END CONFIDENTIAL]

**Q. Did Cascade impose Overrun Entitlement charges on other Transportation Service Customers for overruns during the February 2021 Entitlement Period?**

A. Yes. Cascade imposed Overrun Entitlement charges on 78 Transportation Service Customers during the February 2021 event for a total of $1,022,436.45. Details of the charges are included in Confidential Exhibit CR-7C, February 2021 Overrun Entitlement Charges.

**Q. How did Tree Top's overruns compare to these other overruns?**

A. As indicated in Confidential Exhibit CR-7C, Tree Top's cumulative penalty of $198,884.87 for overruns at its four plants was greater than the penalty incurred by any other Transportation Service Customer.

**Q. Were there Transportation Service Customers who did not incur Overrun Entitlement Charges?**

A. Yes. Approximately 67 percent of Cascade's Transportation Service Customers nominated adequate gas supplies and avoided Overrun Entitlement Charges. Issuing refunds to Tree Top would be unfair to these other transportation customers who managed to the entitlement.

**Q. Mr. Mullins alleges that it is more difficult for Tree Top to properly nominate gas due**

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[58] Robbins, Exhibit CR-9C, Tree Top's Confidential Resp. to Cascade DR 13-14 at 11.
[59] Robbins, Exhibit CR-9C, Tree Top's Confidential Resp. to Cascade DR 13-14 at 11.

**to variability in its production cycles.[60] Do you think this justifies Tree Top's inability or unwillingness to bring on adequate gas supplies during entitlements?**

A. No, I do not. Customers that take service under Schedule 663 have an obligation to abide by its terms and conditions, including the daily balancing of gas during entitlement periods. Customers that cannot handle this obligation should consider taking service as a firm customer.

**Q. Are you aware of any other Schedule 663 customers with variable production cycles that were able to avoid Overrun Entitlement charges during the February 2021 Entitlement Period?**

A. Yes. Tree Top is not unique in this manner. Customers with variable loads like Tree Top would typically utilize the multiple nomination cycles to adequately balance their supplies and avoid penalties.

**Q. Mr. Mullins states that it is "not necessarily appropriate" for Cascade's tariff to include overrun entitlement charge language identical to the pipeline's tariff language.[61] Do you agree?**

A. No, I do not agree. When market pricing is high, transportation customers may find it more appealing to take gas from Cascade's distribution system beyond what they have nominated than to subject themselves to the higher prices. The overrun charge must be high enough to cause the transportation customer to recognize the financial harm it would incur by doing this. Furthermore, if there was market manipulation as Mr. Mullins suggests[62] the overrun charges incentivize transportation customers to not engage in these

[60] Mullins, Exh. BGM-1CT at 4:22-5:9.
[61] Mullins, Exh. BGM-1CT at 8:13-17.
[62] Mullins, Exh. BGM-1CT at 20:2-4.

practices themselves by, for example, having their suppliers divert gas they purchased at lower prices away from Cascade's system and to the higher priced markets.

**Q. Please explain how your transportation customers or their Suppliers might engage in the same type of behavior about which Mr. Mullins complains.**

A. As I have already mentioned, without a sufficient overrun entitlement charge, a transportation customer would have a financial incentive to purchase less gas than it knew it needed and pay the lower charge rather than securing additional gas on the higher priced spot market. Additionally, the marketers would have an economic incentive to engage in arbitrage by moving gas to higher priced markets instead of using that gas to supply customers. The purpose behind the overrun entitlement charges is eliminating those economic incentives by making it less expensive for the marketers and transportation customers to deliver adequate gas supplies to Cascade's system.

**Q. Mr. Mullins alleges that Cascade's charges were unreasonable—among other reasons—because they exceeded what other utilities charge for curtailment events, which he alleges are more "severe."[63] Do you agree?**

A. No, and again, I think Mr. Mullins is missing the point. The overrun entitlement charges must be greater than the highest midpoint price of the regional pricing markets to which Cascade and transportation customers are exposed by a large enough factor to encourage the transportation customers to purchase the gas themselves instead of pushing the risk of shortages to Cascade. This is not a matter of curtailments versus entitlements, or which is "more severe." It is a matter of ensuring that it is more expensive for transportation customers to fail to bring on adequate supplies and pay a penalty than it is for them to

[63] Mullins, Exh. BGM-1CT at 9:12-10:11.

purchase additional gas supplies on the higher priced open market because their deficiencies could potentially jeopardize Cascade's system integrity.

**Q. Mr. Mullins claims that it would be more appropriate to base the charges on pricing at Sumas because Sumas is "the most liquid trading hub in our region and where Canadian gas supplies are delivered" and because using Sumas pricing "still provides strong incentive to encourage accurate forecasting, without being overly punitive."[64] Do you agree?**

A. No. Mr. Mullins' effort to base the entitlement charges on this lower priced market ignores the purpose of setting the Overrun Entitlement charges at 150 percent of the highest midpoint price for the day at regional pricing points to which Cascade is exposed. Failing to include a pricing point because it was significantly higher than the other pricing points—even if above-average demand drove prices higher at that point—would diminish the effectiveness of the entitlement charges by increasing the financial incentive for customers and marketers to move gas to those higher priced markets or rely on Cascade and other transportation customers to cover any shortages. Doing so here retroactively would send the wrong message to Tree Top and other Transportation Service Customers and undermine the incentive structure in Cascade's tariff.

**Q. Mr. Mullins says that, as an alternative to Sumas, the Stanfield market would be "an appropriate market to consider for the purpose of sending an accurate price signal [because] it is the nearest market to Cascade's service territory."[65] Do you agree?**

A. No. As I have previously stated, Cascade's overrun entitlement charges must be based on the highest midpoint price to which Cascade and its customers are exposed. Selecting an

[64] Mullins, Exh. BGM-1CT at 32:15-33:2.
[65] Mullins, Exh. BGM-1CT at 33:3-5.

alternate pricing point simply because it is closer to Cascade's service territory would defeat the purpose of the overrun entitlement charges—that is, to prevent transportation customers from shifting the risks of supply shortages and exposure to higher priced markets to Cascade and its core customers. Furthermore, Mr. Mullins supports the use of Sumas because of its liquidity, and Stanfield because of its proximity, but I doubt that Mr. Mullins would still support the use of these markets if they were the ones that experienced the higher pricing like seen at Green River during this event.

**Q. Mr. Mullins says that Tree Top should be able to net its nominations across its plants.[66] Do you agree?**

A. No, I do not agree with this because it ignores the physical realities of Cascade's natural gas distribution system as shown in Exhibit CR-6 at 1. Tree Top's plants are located within three separate distribution systems and each system has distinct operating conditions and delivering gas to one distribution system does not support the operating conditions in another physically separate system. It could even be challenging to aggregate multiple accounts within a single distribution system because operating pressures and gas flow characteristics are not necessarily consistent across a distribution system in that some areas operate at higher or lower pressures to serve core customer demand. Furthermore, three of Tree Top's plants (Wenatchee and the two Selah plants) are north of the Zillah Compressor Station on the Northwest Pipeline and one (Prosser) is south of Zillah. This compressor station is a potential point of constraint on the Northwest Pipeline and capacity restrictions at the compressor station could prevent the flow of gas through the constraint. Therefore, for example, delivering more gas to Prosser to satisfy demand at Wenatchee might not

[66] Mullins, Exh. BGM-1CT at 3:7-8.

result in additional gas flowing north of Zillah Compressor, which would result in lower mainline delivery pressures on the Northwest Pipeline at Wenatchee. Finally, Northwest Pipeline occasionally issues differing levels of entitlement across its system based on the different operational conditions or expected supply concerns. A customer like Tree Top could load up supply in the less restrictive zone and fail to bring on adequate supplies in the more restrictive zone, thereby exposing Cascade to potential system integrity issues and penalties from the upstream pipeline. In short, excess gas at one delivery point does not necessarily offset the threat posed by a shortfall at another.

**Q. Mr. Mullins alleges that CMS and Tree Top brought on more gas than they consumed during the event and that this benefitted Cascade.[67] Do you agree?**

A. Not necessarily. This argument is flawed because it would be inappropriate to aggregate the gas nominated over the entire system and inappropriate to aggregate the gas nominated over the entire entitlement period, neither of which are permitted under Schedule 663. First, as I previously explained, Cascade may not be able to utilize "excess gas" delivered to one area of its system to satisfy deficiencies in other areas because of capacity constraints or other restrictions. Second, daily deficiencies could have significant impacts during these critical operational periods when supply constraints may exist, and certain facts Mr. Mullins included in his testimony help illustrate this point. For example, Mr. Mullins notes that Tree Top's "overruns occurred primarily on Monday and Tuesday," whereas "significant underruns occurred on Friday, Saturday, and Sunday"[68] However, Mr. Mullins' fails to mention that Tree Top brought on excess gas at certain locations when gas prices were at their lowest and failed to bring on sufficient gas when prices were at their

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[67] Mullins, Exh. BGM-1CT at 30:5-15.

[68] Mullins, Exh. BGM-1CT at 15:5-6. *See also* Tree Top Confidential Table 2, Mullins, Exh. BGM-1CT at 14.

highest. That is, Mr. Mullins ignores that pricing at Green River was at its lowest on Friday and that prices at Green River and other markets continued to increase over the weekend and into the following week, with two hubs seeing prices that exceeded the allegedly "dysfunctional" Green River prices.[69] By attempting to net nominations and usage across the February 2021 Entitlement Period, Tree Top is again attempting to shift the risks of shortages and higher prices to Cascade and its core customers by effectively asking the Commission to ignore that Tree Top failed to bring on adequate gas supplies on the days when it mattered the most; that is, when supplies were the lowest and prices were at their highest.

**Q. Was this the first time Tree Top incurred overrun entitlement charges?**

A. No. Tree Top has incurred overrun entitlement charges multiple times over the past several years and these penalties are documented in Exhibit CR-10(C) – Tree Top Entitlement Penalties.[70]

**Q. Has Tree Top incurred overrun entitlement charges since the February 2021 event?**

A. Yes, Tree Top incurred overrun entitlement penalties for failing to bring on adequate gas supplies during an Overrun Entitlement in late December 2021 and early January 2022.[71]

**Q. What is your recommendation to the Commission?**

A. I recommend that the Commission deny Tree Top's request to refund a portion of the penalties it paid for failing to nominate adequate gas supplies during the February 2021 Entitlement Period.

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[69] Robbins, Exhibit CR-11C, Excerpt of Cascade's Confidential Resp. to Tree Top's Data Request 24. On Wednesday, February 17, 2021, pricing at Kern River Opal was [redacted]/Dth and pricing at NW Wyoming Pool was [redacted]/Dth, both of which exceeding the pricing at Green River during any day of the February 2021 Entitlement Period.

[70] Robbins, Exhibit CR-10C, Tree Top's Entitlement Penalties.

[71] Robbins, Exhibit CR-10C, Tree Top's Entitlement Penalties.

**Q. Please summarize why you think the Commission should deny Tree Top's request.**

A. The Company's tariff Schedule 663 requires Transportation Service Customers like Tree Top to nominate adequate gas supplies during critical operational periods or be subject to overrun entitlement charges. The penalties imposed on Tree Top were appropriate and necessary to remove the financial incentive Tree Top otherwise had to rely on Cascade or other transportation customers to cover its negative imbalances. Tree Top had multiple opportunities during the February 2021 Entitlement Period to update its nominations and bring on adequate supplies and failed to do so. Tree Top's inability or unwillingness to properly balance its consumption with its nominated amounts unfairly and inappropriately burdened other transportation customers, Cascade, and its core customers. Therefore, the overrun entitlement charges were reasonable and appropriate, whereas it would be unreasonable and inappropriate to claw back the refund revenues from Cascade's core customers.

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

A. Yes.