Exh. JAD-1T
Docket UG-240008
Witness: Jacob A. Darrington

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF JACOB A. DARRINGTON

March 29, 2024

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jacob A. Darrington and my business address is 555 South Cole Road, Boise, Idaho 83709.

Q. By whom are you employed, for how long, and in what capacity?

A. I am a Manager of Regulatory Affairs for Cascade Natural Gas Corporation ("Cascade" or "Company") and Intermountain Gas Company ("Intermountain"), both wholly-owned subsidiaries of MDU Resources Group, Inc. ("MDU Resources). In this capacity, I am primarily responsible for the purchased gas adjustment filings and the development of the revenue requirement related to general rate case filings for the Washington, Oregon, and Idaho jurisdictions of Cascade and Intermountain.

Q. Please briefly describe your educational background and professional experience.

A. I graduated from Boise State University in May 2011 with a Bachelor of Arts Degree in Accounting-Finance. In January 2012, I began work at Deloitte Tax as a Tax Consultant. I obtained my CPA license in the summer of 2013 and continue to keep my CPA license active in the state of Idaho. In April of 2015, I took a position with Intermountain Gas Company as a Regulatory Analyst with primary responsibilities related to the preparation and filing of the annual purchased gas cost adjustment ("PGA") filing as well as the development of revenue requirement related to general rate case filings. In July of 2015, I attended the Regulatory Rate School in Chicago sponsored by the American Gas Association. In 2019, I was promoted to Manager in the Intermountain Regulatory Affairs department, and in 2022, I took on additional responsibilities for Cascade's Washington and Oregon jurisdictions. I have previously sponsored testimony and exhibits before the Idaho Public Utilities Commission for two general rate case filings for Intermountain.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony in this docket?

A. My testimony will address four main areas regarding the development of the Company's proposed revenue requirement. First, I will present an overview of the proposed revenue requirement for each rate effective year. Second, I will discuss the Company's Summary of Adjusted Test Year Revenues by Rate Schedule and the adjustments contained in that exhibit. Third, I will discuss the Company's restating (Section V) and pro forma (Section VI) adjustments to the test year operating revenues, expenses and rate base. Fourth, I will discuss the adjustments to the first and second provisional years.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I am sponsoring the following exhibits:

Exh. JAD-2 Summary of Adjusted Test Year Revenues by Rate Schedule

Exh. JAD-3 Test Year Results of Operations Summary Sheet

Exh. JAD-4 Results of Multi-Year Rate Plan Summary Sheet

Exh. JAD-5 Multi-Year Rate Plan Revenue Requirement Calculation

Exh. JAD-6 Conversion Factor for Revenue Sensitive Costs

Exh. JAD-7 Summary of Adjustments

Exh. JAD-8 State Allocation Factors

III. PROPOSED REVENUE REQUIREMENT

Q. Please explain the test year, provisional years, and rate effective dates used in this case.

A. Cascade has selected the 12 months ending on December 31, 2023 as the test year in this case.[1] Additionally, Cascade is proposing to include two provisional years for the periods ending December 31, 2024, and December 31, 2025. Table 1 below outlines the rate effective dates for each of these periods.

Table 1. Rate Effective Dates for Test Year and Provisional Years

	Test Year[2]	Provisional Year 1[3]	Provisional Year 2[4]
Period	1/1/2023-12/31/2023	1/1/2024-12/31/2024	1/1/2025-12/31/2025
Effective Date	March 1, 2025	March 1, 2025	March 1, 2026

[1] This test year meets the requirements of Order 09 in Docket UG-210755, which requires the test year to be "no older than six months from the date initial testimony is filed."

[2] Includes pro forma adjustments related to the 2024 provisional year.

[3] Only includes 2024 provisional plant adjustments.

[4] Includes 2025 pro forma and provisional plant adjustments.

Q. Please summarize the Company's proposed revenue requirement increase for each rate effective date for the Washington jurisdiction.

A. The Company is seeking to increase base rate revenues for each rate effective date by the amounts listed in Table 2 below.

Table 2. Base Rate Revenue Increases Requested

	Test Year (Rates Effective March 1, 2025)	Provisional Year 1 (Rates Effective March 1, 2025)	**Total for Rates Effective March 1, 2025**	**Provisional Year 2 (Rates Effective March 1, 2026)**
Revenue Requirement	$30,458,350	$13,371,323	$43,829,673	$11,669,242
Base Revenue Increase	20.91%	9.08%	29.78%	6.04%
Overall Revenue Increase	8.08%	3.53%	11.59%	2.75%

Exh. JAD-5 shows the calculation of the proposed deficiency in operating revenue for each rate effective date. First, the Company's adjusted rate base is multiplied by the proposed rate of return ("ROR") to calculate the required return. The proposed rate of return is discussed and supported by the direct testimony of Company witness Tammy Nygard in Exh. TJN-1T. Second, the adjusted net income is subtracted from the required return to calculate the required net income. The final step is to convert the Company's required net income into its revenue requirement by dividing the required net income by the Company's conversion factor found on line 19 of Exh. JAD-6.

Q. Please explain the conversion factor.

A. Exh. JAD-6 shows the calculation of the conversion factor, which is applied to the required net income increase to produce the revenue requirement. The conversion factor—which is sometimes called a "gross-up" factor—is a standard adjustment that takes into account revenue-sensitive items that change as revenue changes, such as Commission regulatory fees, Washington Business and Operating ("B&O") tax, and federal income taxes. As shown on line 19, the conversion factor is calculated to be 0.75110. This is the same methodology used to calculate the conversion factor in Cascade's last rate case, Docket UG-210755.

Q. What would Cascade's ROR be for the test year absent the proposed revenue requirement increase?

A. Cascade's unadjusted ROR for 2023 was 5.56 percent as seen on Exh. JAD-3, column (B), line 32. After accounting for the restating and pro forma adjustments to be discussed later in this testimony, the ROR drops to 4.20 percent as shown on column (F), line 32. Both of these amounts are far below the Company's authorized ROR of 6.85 percent.[5]

[5] The Commission authorized this rate of return in Order 09 in Docket UG-210755.

Q. Is the Company providing the derivation of the interstate allocation factors used in this case?

A. Yes. As required by WAC 480-07-510(3)(c), the Company is providing Exh. JAD-8 to show the derivation of the interstate allocation factors in effect during calendar year 2023, as well as the allocation factors in effect for calendar year 2024. The calendar year 2024 allocation factors were used in the calculation of 2024 and 2025 pro forma and provisional year adjustments where applicable.

IV. SUMMARY OF ADJUSTED TEST YEAR REVENUES

Q. Please describe the Summary of Adjusted Test Year Revenues by Rate Schedule presented on Exh. JAD-2.

A. Exh. JAD-2 shows the unadjusted test year revenues, revenue adjustments, and adjusted test year revenues by rate component for each of the Company's rate schedules. The intent is to present test year revenues in a way that is transparent and accurately demonstrates the revenue impact by rate schedule of the Company's revenue adjustments. In Cascade's 2015 general rate case, the Company agreed that for future rate cases, it would identify book revenues for accounting purposes between true gas cost revenue, margin revenue and all other revenue sources.[6]

[6] *See WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Order 04 ¶ 14 (July 7, 2016) (citing Joint Testimony supporting Settlement Agreement).

Q. Please explain the "Test Year Results" section on Exh. JAD-2.

A. This section shows the 2023 billing determinants (customer counts and therms) and revenues by rate component and by rate schedule. This section is also separated between margin revenues and non-margin revenues. The billing determinants and revenues in this section reflect both billed and unbilled amounts and tie to the Company's general ledger and other records.

Q. Did you treat unbilled revenue in a manner consistent with the Commission direction in prior orders?

A. Yes. As discussed below, I have used a restating adjustment to remove all billed and unbilled revenue related to supplemental tariffs in compliance with the Commission's final order in Docket UG-200568.

Q. Please explain the adjustment titled "Remove Supplemental Schedule Revenues" on Exh. JAD-2.

A. This adjustment removes all non-margin revenues associated with the Company's pass-through tariff schedules. This adjustment is required by Order 05 in Docket UG-200568. Please note that revenues associated with the Company's Cost Recovery Mechanism ("CRM") are removed in the "Annualized CRM" adjustment discussed in the Test Year Restating Adjustments section below. Additionally, the test year decoupling deferral amounts are removed as part of the "Weather Normalization" adjustment discussed below. The total impact of this adjustment on operating revenues is a decrease of $229,729,905, as seen on column (D), line 158.

Q. Please explain the adjustment titled "Billing Determinant Recalculation at Current Rates" on Exh. JAD-2.

A. This adjustment recalculates the margin revenues using the billing determinants and its current margin rates, which were approved as part of a compliance filing to comply with Order 12 in Docket UG-210755, effective March 1, 2023. The total impact of this adjustment on operating revenues is a decrease of $1,485,989, as seen on column (F), line 158.

Q. Please explain the adjustment titled "Weather Normalization" on Exh. JAD-2.

A. The Company performs a Weather Normalization adjustment to modify test year billing determinants for Schedules 503 and 504 to be more representative of the average weather conditions expected when the rates proposed in this case go into effect. This adjustment is based on the proposed weather normalization methodology presented by Company witness Brian Robertson in Exh. BLR-1T.

This adjustment also removes the test year decoupling deferral amounts which have been deferred according to Rule 21 of the Company's tariff and which will be included in the Company's next annual decoupling mechanism adjustment filing for refund or collection from customers. The removal of current year decoupling deferrals allows the Company to restate its volumes without the impact of its decoupling mechanism, which allows the Company to appropriately calculate the new authorized revenue per customer for its decoupling mechanism. The new decoupling baseline amounts will be discussed in the testimony of Company witness Zachary Harris in Exh. ZLH-1T.

The total impact of this adjustment on operating revenues is a decrease of $288,495, as seen on column (I), line 158.

Q. Please explain the adjustment titled "End of Period" on Exh. JAD-2.

A. This adjustment presents billing determinants and associated revenues adjusted to 2023 End of Period ("EOP") test year levels using the Company's current margin rates approved in Docket UG-210755. The basic service charge billing determinants are equal to 2023 EOP customer counts, while the margin billing determinants are calculated by multiplying 2023 EOP customer counts by adjusted test year usage per customer. The Company is utilizing EOP billing determinants in this case to address regulatory lag in its rate base as discussed in greater detail in the testimony of Company witness Lori Blattner in Exh. LAB-1T. The total impact of this adjustment on operating revenues is an increase of $436,247, as seen on column (L), line 158.

Q. Please explain the adjustment titled "Cost Recovery Mechanism" ("CRM") on Exh. JAD-2.

A. This adjustment reflects an annualization of CRM revenues based on EOP billing determinants and the most current rate approved in Docket UG-230426. The Company includes annualized CRM revenues to match up with CRM investments included in rate base. The CRM is discussed in more detail in the testimony of Company witness Lori Blattner in Exh. LAB-1T. The total impact of this adjustment on operating revenues is an increase of $1,831,965, as seen on column (O), line 158.

Q. Please explain the "Adjusted Test Year Results" section on Exh. JAD-2.

A. This section represents the final adjusted test year billing determinants and revenues for each rate class, which are used in the calculation of the Company's 2023 revenue requirement. Total test year rate schedule revenues are $144,868,033, as seen on column (Q), line 158, which ties to the sum of lines 2-3, column (F) of Exh. JAD-3.

V. TEST YEAR RESTATING ADJUSTMENTS

Q. What are restating adjustments?

A. Restating adjustments are defined by WAC 480-07-510(3)(c)(i) and allow the Company to "adjust the booked operating results for any defect or infirmities in actual recorded results of operations that can distort test period earnings." The Company has included several restating adjustments in Exh. JAD-7, identified as R-1 through R-11. The sum of these restating adjustments is included in the column titled "Restating Adjustments" on Exh. JAD-3.

Q. Will you please describe each of the restating adjustments included in Exh. JAD-7?

A. Yes. The "Remove Supplemental Schedules Adjustment" (Column R-1) removes both the revenues and expenses associated with the rate schedules 581 (discontinued in 2023), 582, 590, 593, 594, and 596. Revenues associated with the CRM are adjusted in the "Annualized CRM Adjustment" and the test year decoupling deferral amounts are removed as part of the "Normalize Revenue Adjustment". The R-1 adjustment is required by Order 05 in Docket UG-200568.[7] This adjustment increases net operating income by $252,238.

The "Normalize Revenues Adjustment" (Column R-2), normalizes and annualizes the Company's revenues in this case based on current rates, weather normalization and the removal of test year decoupling deferrals. Please see the "Billing Determinant Recalculation at Current Rates" and "Weather Normalization" sections earlier in my testimony for a discussion of these adjustments. This adjustment decreases net operating income by $1,332,817.

The "Restate End of Period Adjustment" (Column R-3) adjusts the Company's rate base from an Average of Monthly Averages ("AMA") basis to an EOP basis. This adjustment also adjusts the annual depreciation to match the EOP rate base by multiplying the EOP plant in service by the depreciation rates approved in Order 01 in Docket UG-200278.[8] Company witness Lori Blattner discusses the appropriateness of, and support for, the Company's request to use EOP rate base. The final component of this adjustment is to match the revenues with EOP rate base. The adjustment to revenues was explained previously in my testimony and is calculated in the "End of Period" section of Exh. JAD-2. This adjustment decreases net operating income by $630,146 and increases rate base by $35,820,359.

[7] *See WUTC v. Cascade Natural Gas Corporation,* Docket UG-200568 Order 05 ¶ 321 (May 18, 2021).
[8] This method complies with the Commission's statement that its "preferred approach is to calculate depreciation by applying the authorized depreciation rates to the modified historical test year rate base." *WUTC v. Cascade Nat. Gas Corp.*, Docket UG-210755, Order 09 ¶ 161 (August 23, 2022).

The "Annualized CRM Adjustment" (Column R-4) incorporates the "Cost Recovery Mechanism" adjustment discussed earlier and calculated on Exh. JAD-2. This adjustment increases net operating income by $1,375,991.

The "Promotional Advertising Adjustment" (Column R-5) removes advertising costs that promote the Company's brand or image, rather than conservation or safety, consistent with WAC 480-90-223. The Company removed in its entirety the amounts related to advertising booked to FERC accounts 913 and 930.1. This adjustment increases net operating income by $28,893.

The "Restate Wages Adjustment" (Column R-6) annualizes an April 1, 2023 increase to test year wages for union employees based on the three percent increase included in the union contract. This adjustment is supported by Company witness Kirsti Hourigan in Exh. KH-1T. This adjustment reduces net operating income by $76,024.

The "Restate Incentives Adjustment" (Column R-7) removes all incentive compensation paid to the Company's executive group and utilizes a five-year rolling average to normalize non-executive incentive compensation using the methodology approved in Order 05 in Docket UG-200568. The increases net operating income by $2,022,077.

The "Director & Officers Adjustment" (Column R-8) removes 50 percent of Director and Officer expenses, and 100 percent of organization dues allocated to the Company from MDUR, resulting in an increase of $126,779 to net operating income.

The "Restate COVID-19 Deferral Offsets Adjustment" (Column R-9), increases operations and maintenance expense ("O&M") by removing the effects of the deferral offsets made in 2023 to bad debt expense, credit and collections O&M, and other O&M costs and savings booked in accordance with the Company's COVID-19 deferral which was authorized in Docket UG-200479. This adjustment is different from the restating adjustment included in Docket UG-210755, where the Company included a restating adjustment to impute late payment charge revenues that it had not been allowed to collect from customers during its test year due to the COVID-19 rules put in place by the Commission. This had the effect of lowering the Company's base rates. Currently, the Company is still not allowed to charge customers a fee for late payment, and it does not appear likely that this will be allowed in the future. For this reason, the Company is not imputing late payment charge revenues in this case. As explained above, the R-9 adjustment modifies test year expense to include COVID-19 costs and benefits deferred in 2023 thus establishing expense levels realized in the test year, which are reflective of the rate year. If this adjustment is approved, the Company would stop deferring these types of costs beginning March 1, 2025. The Company is seeking collection of all costs deferred, including lost revenues (both late payment charges and reconnection fees) not booked to the deferral due to accounting rules, up to March 1, 2025, through a separate COVID-19 tariff which is presented in the testimony of Company witness Zachary Harris in Exh. ZLH-1T. This adjustment decreases net operating income by $1,141,621.

The "Restate CCA Labor Expense Adjustment" (Column R-10), increases O&M expense by removing the offsets to labor and benefits expense booked in accordance with the Company's Climate Commitment Act ("CCA") deferral, which was authorized in Order 01 in Docket UG-220759. The Company has filed for authority to start a CCA tariff (Schedule 700) to collect deferred CCA costs with rates effective May 1, 2024 (see Docket UG-240141). Normally, labor and benefits expense would be included in base rates and not in a tracking mechanism, however, the Company deferred incremental labor and benefits expense to the CCA deferral as the Company began its efforts to comply with the CCA. This adjustment will embed in base rates this incremental labor on an on-going basis. This adjustment proposes to increase test year expense to include the labor and benefits costs deferred in 2023. If this adjustment is approved, the Company would stop deferring these types of costs beginning March 1, 2025. This adjustment decreases net operating income by $53,762.

The "Restate Commission Fees Adjustment" (Column R-11) increases the test year Commission fee expense to reflect the current Commission fee rate as stated in RCW 80.24.010. The Company calculated the test year Commission fee expense by multiplying adjusted test year operating revenues by the new Commission fee rate and subtracting off test year Commission fee expenses, including amounts calculated on adjustments R-1 through R-4. The Company is currently deferring the difference between the Commission's current and previous rate as authorized in Order 01 in Docket UG-220912. The Company is proposing to recover the Commission Fee deferral in a separate tariff, which is presented in the testimony of Company witness

Zachary Harris in Exh. ZLH-1T. By proposing to include these costs in base rates, the Company would stop deferring the difference between the current and previous Commission fee rate beginning March 1, 2025, and would seek collection of all costs deferred up to March 1, 2025, through the proposed Commission Fee tariff. This adjustment reduces net operating income by $288,209.

VI. TEST YEAR PRO FROMA ADJUSTMENTS

Q. What are pro forma adjustments?

A. Pro forma adjustments are defined by WAC 480-07-510(3)(c)(ii) as adjustments which "give effect for the test period to all known and measurable changes that are not offset by other factors." The Company has included several pro forma adjustments in Exh. JAD-7, identified as P-1 through P-9. The sum of these pro forma adjustments is included in the column titled "Proforma Adjustments" on Exh. JAD-3.

Q. Will you please describe each of the pro forma adjustments included in JAD-7?

A. Yes. The "Interest Coordination Adjustment" (Column P-1) revises federal income taxes for the tax effect of the difference between the weighted average debt rate applied to the proposed rate base shown in Exh. JAD-3, column (H), line 30 and test year interest expense. This adjustment ensures that rates reflect the tax effect of the interest associated with funding rate base at the weighted average cost of debt. This decreases net operating income by $983,422.

The "2024 Pro Forma Wage Adjustment" (Column P-2) shows the impact of the 2024 wage increases for non-union and union employees. Due to the ongoing negotiation of the union contract, the Company estimated the 2024 union increase to be five percent. The 2024 non-union increase is 6.17 percent. Included in the 2024 non-union wage increase are increases associated with MDU utilities group and MDU Resources employees that are allocated to Cascade rather than directly assigned. This adjustment is supported by Cascade witness Kirsti Hourigan in Exh. KH-1T. The result is a decrease in net operating income of $1,206,567.

The "MAOP Deferral Amortization" adjustment (Column P-3) relates to the deferred balance associated with Cascade's request for deferred accounting treatment of incremental costs to implement the Maximum Allowable Operating Pressure ("MAOP") Determination and Validation Plan. The request was originally submitted to the Commission on April 29, 2016, in Docket PG-150120, and approved in Docket UG-160787. In Cascade's 2017 general rate case, Docket UG-170929, all parties agreed that Cascade should recover pre-code pipe replacement expenses from customers over a ten-year amortization period, beginning on August 1, 2018.[9] In Dockets UG-190210 and UG-200568, Cascade was authorized to begin amortizing over ten years additional deferred costs incurred.[10] In the current case, Cascade is seeking to recover $20,181,964 of incremental deferred costs incurred since Docket

[9] *See WUTC v. Cascade Natural Gas Corporation*, Docket UG-170929, Order 06 ¶ 61 (July 20, 2018) (citing Partial Joint Settlement Agreement at ¶¶ 21-22).
[10] *See WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05 ¶ 31 (May18, 2021).

UG-200568. Amortizing the incremental deferred costs over ten years results in a decrease to net operating income of $1,594,375.

The “Pro Forma Rate Case Expense Adjustment” (Column P-4) increases test year expenses for the estimated costs associated with the preparation, filing, and resolution of this rate case. As discussed in its petition in Docket UG-230755, the Company’s preliminary estimate of rate case costs is $2.9 million, which includes the work of consultants and legal counsel to help the Company prepare, file, and resolve its first multi-year rate plan. The adjustment is calculated by normalizing the Company’s total estimate over two years and then subtracting the rate case costs expensed in 2023. This adjustment results in a decrease to net operating income of $1,044,231.

The “Pro Forma Medical, Dental, & Life Insurance Expense Adjustment” (Column P-5) shows the estimated increase in medical, dental, and life insurance expense when compared to calendar year 2023. This adjustment is supported by Company witness Kirsti Hourigan in Exh. KH-1T. The adjustment decreases net operating income by $839,947.

The “Pro Forma Property Tax Adjustment” (Column P-6) shows the estimated increase in property tax expense in calendar year 2024 related to assets placed in service in 2023. The Company’s 2023 property tax expense was based on the assessed value of the previous year’s investment, plus or minus a true-up of the previous year’s estimate. Since current property tax expense is based on previous years’ investment, the Company derived an effective property tax rate based on 2022 plant in service and 2023 property tax expense (without the previous year's true-up) and multiplied this by the 2023 increase in plant in service. Given the lag in property tax assessments and the Company's growing plant in service, the Company believes this approach to be a reasonable estimate of incremental property tax expense. The adjustment decreases net operating income by $159,476.

The "2024 Pro Forma Pension Expense Adjustment" (Column P-7) shows the estimated increase in Cascade's pension expense based on estimates provided by the Company's actuary. This adjustment is supported by Company witness Stephanie A. Sievert in Exh. SAS-1T. The increase in pension expense also increases the Company's pension contribution liability account, which is included in the Working Capital component of the Company's rate base calculation. The estimated 2024 AMA balance of the pension contribution liability account is less than the 2023 AMA balance, which increases Working Capital. In total, this adjustment decreases net operating income by $652,571, and increases rate base by $523,327.

The "2024 Pro Forma Tax Flow-Through Adjustment" (Column P-8) shows the estimated increase to current tax expense to account for the incremental tax flow-through related to the equity portion of Allowance for Funds Used During Construction ("AFUDC") and other pre-1981 tax flow-through items. Because Construction Work in Progress is not included in rate base, the debt and equity portions of AFUDC are allowed to be capitalized and are depreciated once the plant is placed in service. However, for income tax purposes, neither the equity portion originally capitalized for accounting purposes, nor the subsequent depreciation of that amount enters into the determination of taxable income. Therefore, the Company must reflect the resulting tax expense in rates. The pre-1981 tax flow-through items are related to approved rate-making tax accounting treatment for deferred taxes that originated before 1981. The adjustment decreases net operating income by $9,176.

The "2024 Pro Forma Misc. O&M Expense Adjustment" (Column P-9) shows the estimated increase to O&M expense based on a four-year average of O&M expense adjusted to remove expenses related to certain restating and pro forma adjustments made in this case. The four-year average was applied to test year O&M expenses after removing expense items specifically adjusted elsewhere in this case. The Company believes this adjustment is a reasonable estimate of incremental O&M expenses because the four-year average captures both increases and decreases to adjusted O&M expense over the four-year period. The adjustment decreases net operating income by $172,531.

VII. ADJUSTMENTS FOR PROVISIONAL YEARS 1 AND 2

Q. Why is the Company including adjustments for Provisional Years 1 and 2?

A. As discussed in the testimony of Company witness Lori Blattner in Exh. LAB-1T, the Company is required by law to file multi-year rate plans when it seeks an increase in its base rates. As a result, the Company is including adjustments to estimate the impacts to the Company's net operating income and rate base for events expected to occur in Provisional Years 1 and 2. For Provisional Year 1, which is calendar year 2024, the pro forma adjustments I discussed were included in the Test Year revenue requirement calculation shown on Exh. JAD-5, Column (B). The additional adjustments to Provisional Year 1 that I discuss below relate only to provisional plant additions and offsets to those plant additions and these adjustments were included in the Provisional Year 1 revenue requirement calculation shown on Exh. JAD-5, Column (C). For Provisional Year 2, the adjustments discussed below address both provisional plant additions (subject to retrospective review) and other pro forma adjustments and these adjustments were included in the Provisional Year 2 revenue requirement calculation shown on Exh. JAD-5, Column (E). These adjustments are found on Exh. JAD-7 identified as PR-1 through PR-10. The sum of these adjustments is included in the columns titled "Provisional Year 1 Adjustments" and "Provisional Year 2 Adjustments" on Exh. JAD-4.

Q. Will you please explain the adjustments to Provisional Year 1 included in Exh. JAD-7?

A. Yes. The "2024 Provisional Plant Additions" adjustment (Column PR-1) and the "2024 Offsets to Provisional Plant Additions" adjustment (Column PR-2) capture the estimated impacts to the Company's net operating income and rate base related to 2024 additions to plant in service and the related increases and offsets. Because 2024 additions to plant in service will be in service before rates go into effect and the multiyear rate plan statute requires the Commission to, at a minimum, include in rates the property in service as of the rate effective date, the Company is requesting EOP treatment of its rate base, new customer revenues, and depreciation expense adjustments.

Q. Will you please explain the components of the PR-1 adjustment and its overall impact to the Company's rate base?

A. Yes. As discussed in the direct testimony of Company witness Lori Blattner in Exh. LAB-1T, the Company is sponsoring testimony to support the estimated additions to plant in service in 2024. The estimated increase to plant in service is offset by estimated retirements in 2024. The Company does not specifically estimate retirements; instead, its practice has been to estimate retirements of plant in service as a percentage of estimated additions.

The Company estimated the impact to accumulated depreciation by adding 2023 end of period depreciation expense to the estimate of depreciation expense on assets added in 2024 as well as removing estimated retirements and removal costs. The Company calculated the 2024 estimated depreciation expense by multiplying the 2024 estimated additions to plant in service by the depreciation rates approved in Order 01 in Docket UG-200278.

To comply with IRS normalization rules, the Company projected the balance of accumulated deferred income taxes ("ADIT") by adding to the 2023 EOP balance of ADIT the projected tax-effect of book-tax differences on assets in service at the end of 2023 as well as 2024 net additions to plant in service. Additionally, the amortization of excess deferred income taxes ("EDIT") and unamortized loss on reacquired debt were projected and added to the 2023 EOP balance of ADIT.

The total rate base impact of the PR-1 adjustment is an increase of $104,550,518.

Q. Will you please explain the components of the PR-1 adjustment and its overall impact to the Company's net operating income?

A. Yes. The Company estimated the increase to depreciation expense by multiplying the 2024 net additions to plant in service by the depreciation rates approved in Docket UG-200278. The Company also reduced depreciation expense by multiplying the estimated retirements by the average depreciation rate approved in Docket UG-200278.

Employing the same methodology and reasoning used in adjustment P-6, the Company estimated the increase to property tax expense by multiplying the 2024 net additions to plant in service by the effective property tax rate calculated in adjustment P-6.

The Company incorporated the incremental projected EDIT amortization for 2024. This estimate comes from the Company's fixed asset system and is not related to 2024 estimated net plant additions, but it is required to be added to comply with IRS normalization rules.

The total net operating income impact of the PR-1 adjustment is a decrease of $3,201,414.

Q. Will you please explain the components of the PR-2 adjustment and its overall impact to the Company's net operating income?

A. Yes. The Company estimated new customer margin revenue as an offset to the increase in rate base discussed above, consistent with the Commission's direction in the Used and Useful Policy Statement in Docket U-190531 to account for all offsetting factors. The estimate is based on Cascade's customer forecast from its 2023 Integrated Resource Plan. For each month, the Company multiplied the estimated incremental annual customers by the adjusted test year usage per customer. The Company then multiplied this usage by current, unadjusted margin rates.

The Company also estimated O&M expense offsets related to the additions to plant in service by reviewing the parameters of those projects to be completed in 2024. As discussed above, the Commission's Used and Useful Policy Statement requires Companies to account for any offsets related to additions to plant in service included in a future test year.

The total net operating income impact of the PR-2 adjustment is an increase of $1,411,413.

Q. Will you please explain the adjustments to Provisional Year 2 included in Exh. JAD-7?

A. Yes. The "2025 Provisional Plant Additions" adjustment (Column PR-3) is very similar to the PR-1 adjustment, employing the same reasoning and methodologies for calculation of the adjustment. The rate base impacts include 2025 estimated net additions to plant in service (inclusive of estimated retirements), an increase in accumulated depreciation, and an increase to ADIT. The operating income impacts include an increase in depreciation expense for 2025 estimated net plant additions, including the effect of 2025 estimated plant retirements; an increase in property tax related to 2025 estimated net additions to plant in service; and a decrease in EDIT amortization. This adjustment is a decrease to net operating income of $3,216,909 and an increase to rate base of $68,184,935.

The "2025 Offsets to Provisional Plant Additions" adjustment (PR-4) is very similar to the PR-2 adjustment, employing the same reasoning and methodologies for calculation of the adjustment. However, instead of multiplying estimated incremental customers and usage by current, unadjusted margin rates, the Company used the proposed rates to become effective March 1, 2025. Similar to the PR-2 adjustment, the Company included a decrease in O&M expense for offsets related to 2025 estimated additions to plant in service. This adjustment increases net operating income by $1,897,013.

The "2025 Pro Forma Wage Adjustment" (Column PR-5) shows the impact of the estimated increase in non-union and union wages for 2025. The Company is forecasting a four percent and three percent increase to non-union and union wages, respectively. This adjustment follows the same calculation methodology as the P-2 adjustment. This adjustment is supported by Cascade witness Kirsti Hourigan in Exh. KH-1T. This adjustment results in a decrease to net operating income of $802,149.

The "2025 Pro Forma Pension Expense Adjustment" (Column PR-6) captures the estimated incremental pension expense for 2025. This adjustment follows the same reasoning and methodologies for calculation as the P-7 adjustment explained previously. This adjustment is supported by Company witness Stephanie A. Sievert in Exh. SAS-1T. The adjustment decreases net operating income by $764,885. The rate base impact of this adjustment is a $635,127 reduction.

The “2025 Pro Forma 401K Expense Adjustment” (Column PR-7) shows the impact of the estimated increase of the change in the plan design of the Company’s 401(k) plan. Currently, the Company matches up to 50 percent of 6 percent of an employee’s contribution to a 401(k) account. On January 1, 2025, the Company will begin matching 100 percent of 4 percent of an employee’s contribution to a 401(k) account. This change only applies to non-union employees. This adjustment is supported by Cascade witness Kirsti Hourigan in Exh. KH-1T. This adjustment decreases net operating income by $95,548.

The “2025 Pro Forma Tax-Flow Through Adjustment” (Column PR-8) is very similar to the P-8 adjustment, employing the same reasoning and methodologies for calculation of the adjustment. The incremental impact of this adjustment is an increase to net operating income of $1,732.

The “2025 Pro Forma Decarbonization Testing & Demonstration Expense Adjustment” (Column PR-9) shows an increase to O&M expense for estimated testing and demonstration costs related to decarbonization strategies to help Cascade meet Washington’s decarbonization goals. This adjustment is supported by Cascade witness Scott Madison in Exh. SWM-1T. The adjustment decreases net operating income by $276,500.

The ”2025 Pro Forma Misc. O&M Expense Adjustment” (Column PR-10) captures the estimated 2025 increase to O&M expense not otherwise adjusted in the Company’s revenue requirement calculation. This adjustment follows the same reasoning and methodologies for calculation as the P-9 adjustment explained previously. The four-year average O&M increase was applied to net O&M expense after accounting for the adjustment calculated in P-9. The adjustment decreases net operating income by $175,155.

VIII. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes.