Exh. LAB-1T
Docket UG-240008
Witness: Lori A. Blattner

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 LORI A. BLATTNER

March 29, 2024

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Lori Blattner and my business address is 8113 West Grandridge Blvd., Kennewick, WA 99336.

Q. By whom are you employed and in what capacity?

A. I am employed by Cascade Natural Gas Corporation ("Cascade" or "Company"), a wholly-owned subsidiary of MDU Resources Group, Inc. ("MDU Resources"), as Director, Regulatory Affairs. In this capacity, I am responsible for all regulatory activity in Washington, Oregon, and Idaho as well as the Energy Efficiency programs for both Cascade and Intermountain Gas Company ("Intermountain").

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

A. I graduated from the University of Idaho with a Bachelor of Science degree in Agricultural Economics. I joined Intermountain in 1997 as a Regulatory Analyst and was responsible for cost of service, rate design, and weather normalization, as well as other regulatory issues. I was promoted to Manager, Energy Efficiency and Regulatory Process in 2017. In that role, I was responsible for cost of service and weather normalization as well as launching Intermountain's Energy Efficiency program. I was promoted to Director of Regulatory Affairs for Intermountain in 2019 and to my current position in 2021. I have testified in Intermountain's rate case proceedings.

II. SCOPE AND SUMMARY OF TESTIMONY

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

A. My testimony will describe Cascade's multiyear rate plan and how it addresses the requirements of RCW 80.28.425 as well as other recent Commission guidance, including additional public interest criteria and energy burden provisions. I will outline a proposed earnings test and proposed performance measures. In addition, I introduce the witnesses who will provide testimony on plant that has been placed in service since Cascade's last general rate case test year, as well as those providing testimony on provisional plant additions. Next, I will provide an explanation of why end of period treatment is appropriate in this multiyear rate plan and outline a proposed provisional review process for plant additions. Finally, I will discuss the Company's plans to retire its cost recovery mechanism.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I sponsor the following exhibits:

- Exh. LAB-2 Funding Project Authorization Policy
- Exh. LAB-3 Statement of Operations and Rate of Return Reports from 2015 through 2022

III. CASCADE'S MULTIYEAR RATE PLAN

A. Overview

Q. Why is Cascade filing a multiyear rate plan?

A. Cascade is filing a multiyear rate plan in compliance with RCW 80.28.425(1), which states, "Beginning January 1, 2022, every general rate case filing of a gas or electric company must include a proposal for a multiyear rate plan as provided in this chapter." Pursuant to this statute, Cascade is proposing a two-year rate plan in this general rate case filing.

Q. In addition to RCW 80.28.425, did the Company rely on any other Commission guidance on what should be included in the multiyear rate plan?

A. Yes. The Company also followed the guidance outlined in the Commission's Policy Statement on Property that Becomes Used and Useful After Rate Effective Date ("Used and Useful Policy")[1] and Commission Order 09 issued in Cascade's Docket UG-210755 ("Final Order 09"),[2] particularly the guidance related to integrating an equity lens into the Company's decision-making processes. In addition, Cascade has not filed a multiyear rate plan since RCW 80.28.425 went into effect. Because of this, the Company was able to review peer utility filings and the resulting orders. Cascade has made its filing consistent with peer utilities where it made sense and differed where the Company's circumstances made a different approach appropriate.

Q. What years are included in Cascade's multiyear rate plan proposal?

A. The Company is proposing a test year of the twelve-month period ended December 31, 2023. Pro-forma adjustments have been applied to the test year as discussed in the testimony of Jacob Darrington, Exh. JAD-1T. The first provisional period proposed by the Company will include planned capital in service for the calendar year ended December 31, 2024. The first rate year would begin March 1, 2025 (Rate Year One),

[1] *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date, at ¶ 36 (Jan. 31, 2020) ("Used and Useful Policy").

[2] *WUTC v. Cascade Nat. Gas Corp.,* Docket UG-210755, Final Order 09 Approving and Adopting Settlement Agreement Subject to Conditions (Aug. 23, 2022) ("Final Order 09").

and would include a base rate change to recover test year costs as well as an increase for the first provisional year. The second provisional period will include adjustments and plant in service for the year ended December 31, 2025, with rates effective March 1, 2026 (Rate Year Two). Both the 2024 and 2025 provisional period plant in service would be subject to refund as outlined in greater detail below.

Q. How did the Company select the provisional periods?

A. The Company determined, for its initial multiyear plan, the first two years of its five-year budget plan provide the most accurate data upon which to base the provisional rate effective periods. Cascade is aware the Used and Useful Policy would allow for rates to go into effect at the beginning of the rate effective period that the plant is placed in service. However, Cascade's forecasting process has traditionally focused much more on estimating the correct in-service date by year rather than the correct in-service date by month. The Company is putting processes into place, including establishing a Project Management group, that will help improve the forecasting and execution of projects on a more granular monthly timeline.

In addition, the seasonal nature of the Company's construction cycle normally results in a significant portion of plant being placed in service during the fourth quarter each year. For this first multiyear rate plan, the Company is taking a conservative approach and proposing rate effective dates after plant is in service and used and useful for each of the provisional years. Because the plant will be in service by the time rates go into effect, the Company is also proposing end of period rate treatment for the test year and each of the two provisional periods as outlined in greater detail below.

Q. Has Cascade addressed all the requirements of a multiyear rate plan?

A. Yes. As discussed in my testimony and the testimonies of many other witnesses in this case, Cascade has incorporated the requirements of RCW 80.28.425 into this general rate case. Those items include:

1. Multiyear rate plans (RCW 80.28.425(1))
2. The public interest and fair, just, reasonable, and sufficient rates (RCW 80.28.425(1))
3. The public interest, including environmental health and greenhouse gas emissions reductions, health and safety concerns, economic development, and equity (RCW 80.28.425(1))
4. Low-income bill assistance and energy burden consideration (RCW 80.28.425(2))
5. Fair value of property (RCW 80.28.425(3)(b))
6. Determination of revenues and operating expenses (RCW 80.28.425(3)(c))
7. Earnings Test (RCW 80.28.425(6))
8. Performance Measures (RCW 80.28.425(7))

B. Multiyear rate plan period (RCW 80.28.425(1))

Q. Is Cascade proposing a multiyear rate plan in this case?

A. Yes. As described above, Cascade is proposing a two-year rate plan.

Q. Why did the Company decide on the two-year time frame?

A. The Company believes the two-year period requested in this initial case will allow Cascade to implement and develop processes and procedures that may allow a longer plan in the future. As discussed in the testimony of Scott Madison, Exh. SWM-1T, the current operating environment related to decarbonization is very dynamic. Cascade is initiating new programs and deploying new assets to comply with the Climate Commitment Act ("CCA"), meet Washington's ambitious greenhouse gas emissions reduction goals, and explore opportunities for decarbonization while meeting Cascade's duty to serve customers in its Washington service territory. The Company believes it will have additional clarity on the direction it can take to help the state of Washington and its customers meet these climate related goals over the next year. It will be important for the Company to include initiatives related to these efforts in its next multiyear plan, which Cascade anticipates will be filed in 2026.

C. Cascade's multiyear rate plan meets the public interest standard of fair, just, reasonable, and sufficient rates (RCW 80.28.425(1))

Q. Has Cascade considered the traditional standard that includes the public interest of fair, just, reasonable, and sufficient rates in this proposal?

A. Yes. As discussed in the testimony of Jacob Darrington, Exh. JAD-1T, and supported by other witnesses identified through his testimony, Cascade has made restating and pro-forma adjustments to the test year that demonstrate its proposed rates are fair, just, reasonable, and sufficient. Specifically, test year plant in service is used and useful, and the proposed pro forma adjustments to the test year and provisional period amounts involve known and measurable items and adhere to the matching principle.

The Company has also accounted for offsetting factors such as new customer margin revenue and Operations and Maintenance ("O&M") cost savings related to additions to plant in service. The provisional period (2024-2025) plant in service requests follow the Commission's Used and Useful Policy. This policy establishes a process for provisional recovery in rates of rate-effective period property, and such rates are subject to refund. Cascade is proposing a process for a retrospective review of the multiyear rate plan pursuant to RCW 80.28.425(4), which provides for Commission review during the course of a utility's multiyear rate plan. The proposed review process is described below.

D. <u>Cascade's multiyear rate plan considers environmental health and greenhouse gas emissions reductions, health and safety concerns, economic development, and equity (RCW 80.28.425(1))</u>

Q. Has Cascade considered the additional public interest criteria outlined in RCW 80.28.425(1)?

A. Yes. As discussed in the testimony of Scott Madison, Exh. SWM-1T, Cascade is currently working through a project to identify pathways the Company can take that will result in meaningful and significant greenhouse gas reductions while still supporting the Company's statutory duty to serve and to provide for the energy requirements of residential customers, businesses and industry. A balanced approach will ensure continued safety and reliability of the energy delivery system, promote continued economic development in the regions of Washington served by Cascade, and allow Cascade to achieve its carbon compliance targets in the best cost manner for customers.

Noemi Ortiz, in Exh. NO-1T, outlines the Company's progress in making equity a central tenet of its decision-making processes. While Cascade's work to incorporate equity considerations into its processes will be iterative, the Company has made significant progress in recognition justice. The focus of 2023 has been the application of procedural justice in building the structures and relationships to facilitate collaboration with impacted communities. It is within these collaborative forums that Cascade will define inequities with data (distributive justice) and then seek to mitigate them (restorative justice) going forward.

E. Cascade's multiyear rate plan includes low-income bill assistance and energy burden consideration (RCW 80.28.425(2))

Q. How is Cascade addressing the energy burden provision in RCW 80.28.425(2)?

A. In compliance with Final Order 09, Cascade worked with interested parties to develop a robust energy discount and arrearage management program. The Cascade Arrearage Relief Energy Savings ("CARES") program went into effect October 1, 2023.

As outlined in the testimony of Daniel Tillis, Exh. DLT-1T, the Company intends to increase the budget for CARES by, at minimum, double the percentage increase in residential base rates approved for each year of the multiyear rate plan. In addition, at the conclusion of this proceeding, Cascade will review the bill discount rates included in the CARES program. If the resulting energy burden exceeds the three to three and a half percentage target, Cascade will file a revision to Schedule 302 to revise the bill discount rates. This will help to ensure the rate increases proposed in this multiyear rate plan do not disparately impact Cascade's low-income customers. Cascade has not filed proposed revisions to Schedule 302 as part of this proceeding because the Company continues to work with its CARES Advisory Group on potential refinements to the program. Cascade would like to maintain the flexibility to revise Schedule 302 prior to the conclusion of this proceeding which would not be possible if that tariff were suspended.

F. Cascade's multiyear rate plan includes the fair value of property for ratemaking purposes (RCW 80.28.425(3)(b))

Q. How much is the Company proposing to increase ratebase through December 31, 2023?

A. As explained in the testimony of Jacob A. Darrington, the Company's rate base at the end of 2023 is nearly $620 million. That represents an increase of nearly $150 million since the test year in the Company's last general rate case (Docket UG-210755). Most of the growth in rate base is related to the Company's investments in the safe, reliable distribution system that is used to provide energy to customers throughout the year, but especially on the coldest days.

Q. Is Cascade providing detailed explanations for the increases to rate base?

A. Yes. As discussed in the testimony of Patrick Darras, Exh. PCD-1T, and Eric Martuscelli, Exh. EPM-1T, Cascade is following its traditional practice of providing a detailed description of large plant projects that have been placed in service since the end of the test year in Cascade's most recent rate case, or the period from January 1, 2021, through December 31, 2023.

Further, for plant placed in service during the provisional years of 2024 and 2025, Cascade has provided detailed project descriptions for planned projects over $1.0 million. Projects under $1.0 million are summarized in the exhibits of each witness. These plant additions are included as provisional adjustments. As outlined later in my testimony, provisional projects will be subject to review and refund in future filings. Therefore, the Commission can determine the prudency of these provisional additions in future years. The review process will protect customers by confirming they only pay for prudently incurred net plant investment while allowing the Company an opportunity (not a guarantee) to earn its authorized returns.

G. Determination of revenues and operating expenses (RCW 80.28.425(3)(c))

Q. How has the Company determined revenues and operating expenses for the multiyear plan?

A. The Company has used the 2023 test year with restating and pro forma adjustments applied as described in the direct testimony of Jacob Darrington. To offset the increase in rate base and other expenses included in the multiyear plan, Cascade estimated new customer margin revenue based on Cascade's customer forecast included in its 2023 Integrated Resource Plan. The Company has also included an estimated increase to depreciation expense as well as estimated O&M expense offsets related to the proposed additions to plant in service. Provisional Year two includes pro forma adjustments in line with those applied to the test year.

H. Earnings Test (RCW 80.28.425(6))

Q. What is Cascade proposing related to a revision of the earnings test?

A. As outlined in the testimony of Zachary Harris, Exh. ZLH-1T, Cascade proposes to move from the current earnings test included in the Company's decoupling mechanism to the earnings test outlined in RCW 80.28.425(6), which states:

If the annual commission basis report for a gas company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than 0.5 percent higher than the rate of return authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of 0.5 percent higher than the rate of return authorized by the commission for refunds to customers or another determination by the commission in a subsequent adjudicative proceeding.

I. Performance Measures (RCW 80.28.425(7))

Q. What Performance Measures is Cascade proposing?

A. In the final orders in Avista Corporation's and Puget Sound Energy's multiyear rate plan proceedings,[3] the Commission provided a set of performance measures related to operational efficiency, company earnings, affordability, and energy burden. These performance measures are outlined in Table 1 below. Cascade proposes that it track and report the performance metrics outlined in Table 1. The Company proposes that these metrics be provided on April 30 with the capital additions report described below.

[3] *WUTC v. Avista Corp.*, Dockets UE-220053, UG-220054 and UE-210854 (consolidated), Final Order 10/04 (Dec. 12, 2022); *WUTC v. Puget Sound Energy*, Dockets UE-220066, UG-220067 and UG-210918 (consolidated), Final Order 24/10 (Dec. 22, 2022).

Table 1: Proposed Performance Measures

Topic	Measure/Calculation	Outcome
Operational Efficiency	O&M Total Expense divided by Operating Revenue	Assesses how much expense was incurred for every dollar earned. Results at 1.00 or greater might reflect reduced efficiency in controlling O&M spending.
	Operating Revenue divided by AMA Total Rate Base and Operating Revenue divided by EOP Total Rate Base	Assesses efficient use of rate base to generate revenue. Results less than 1.00 or excessively low results might reflect reduced efficiency in utilizing rate base to generate revenue.
	Current Assets divided by Current Liabilities	Assesses liquidity of current assets covering current liabilities. Results less than 1.00 might reflect issues or concerns with liquidity.
Earnings	Net Income divided by Operating Revenue	Assesses the amount of net profit gained through revenues earned. Results should be multiplied by 100, to calculate a percentage result, and compared to the authorized ROR.
	Retained Earnings divided by Total Equity	Assesses the amount of earnings retained by a company compared to its total equity. Excessively low or high deviations might indicate that the company is paying out more earnings than reinvesting or that the company is retaining more than it needs, respectively. This metric will require baseline information to understand reinvesting and payout patterns.
Affordability	Average Annual Bill Impacts (by Census Tract) Average Annual Bill Impacts (by Zip code)	Assesses the average annual residential bill impacts to better understand, over time and by location, affordability of residential rates using the same average energy usage from year to year for better comparability over time.
Energy Burden	Average Annual Bill divided by Average Median Income (by Census Tract) Average Annual Bill divided by Average Median Income (by Zip code)	Assesses the average energy burden residential customers over time and by location. Results greater than six percent indicate energy burden concerns.

Additionally, Cascade continues to participate in Docket U-210590, which will unfold concurrent with the processing of this general rate case. The proceeding in Docket U-210590 seeks to develop a policy statement addressing alternatives to traditional cost of service rate making, including performance measures or goals, targets, performance incentives, and penalty mechanisms. Once the policy statement has been issued in Docket U-210590, the Company will adopt the performance measures outlined in that policy statement.

IV. CAPITAL ADDITIONS PRESENTED IN THIS PROCEEDING

A. Overview of Cascade's Funding Project Process

Q. What is the approval process for Funding Projects?

A. Capital additions and changes are planned through the annual budget process using PowerPlan ("PP"). The budget process begins with an individual (originator) creating specific funding projects in PP for all new projects to be included in the five-year capital budget. Funding projects are used to hold the capital budget estimates and will be linked to the capital work orders to be created when actual costs commence. A Fixed Asset Financial Analyst reviews the funding projects for proper setup. If the project is not considered a capital expenditure as it was submitted, it is rejected and sent back to the originator for revision, cancelled, or it is moved to O&M Expense. After the review has been completed for all projects, another Fixed Asset Financial Analyst will add appropriate overheads.

Once all the funding projects have been updated with expenditures, various Company operating managers generate reports to show estimated expenditures and justification for each project. The managers perform the review of funding projects and see that any necessary changes are made to the estimate and that the project is supported. Reports are then generated by the budgeting personnel for review and approval by the Directors and Vice Presidents of the Utility Group. Any final budget changes are made, and the budgets are then presented to the Utility Group's Chief Utility Officer for review and approval. The final Utility Group budget is then presented to the MDU Resources CEO for review and approval. If the budget is approved by the MDU Resources CEO, the final review and approval of the total budget amount occurs with the Board of Directors. At each stage of the review and approval process a project (or projects) can be challenged for appropriateness and removed from the capital budget or moved to another year within the five-year budget. The addition or removal of projects can also be impacted by other factors such as available capital and/or borrowing capacity.

After final approval, an approved budget version is created in PP and locked for entry. Project managers are notified that the budget has been approved and the funding projects are open for work order creation. Prior to incurring any capital expenditures, a capital work order is created and must be approved in PP. Projects are monitored and updated throughout the year as part of the review process and to monitor that projects are completed on time and within the approved budget. Please see Exh. LAB-2 for Cascade's Authorization Policy. All work orders undergo such authorization process.

B. Capital Additions During this Multiyear Rate Plan

Q. Please provide a summary of the other witnesses who provide supporting

testimony related to capital additions in this proceeding.

A. Patrick Darras and Eric Martuscelli provide detailed discussions of actual plant placed in service from 2021 through 2023. Patrick Darras, Eric Martuscelli, Hart Gilchrist, Tammy Nygard, and Daniel Tillis describe the provisional plant that is planned to be placed in service in 2024 and 2025. Table 2 below summarizes the plant additions described in testimony. The values for 2024 and 2025 are summaries of the plant additions described in testimony as well as the plant additions included in exhibits for each witness and thus represent the plant addition requests for the provisional periods by category and in total.

Table 2: Plant Additions

Description	Specific Projects	Programmatic Projects	Total
2021 - 2023 Major Projects:			
Testimony and Exhibits of Patrick Darras	$65,455,450	$0	**$65,455,450**
Testimony and Exhibits of Eric Martuscelli	$3,903,621	$55,837,670	**$59,741,291**
Total 2021 – 2023 Major Projects	**$69,359,071**	**$55,837,670**	**$125,196,741**
2024 Projects:			
Testimony and Exhibits of Patrick Darras	$91,463,727	$13,976,817	**$105,440,545**
Testimony and Exhibits of Eric Martuscelli	$3,172,980	$25,155,451	**$28,328,431**
Testimony and Exhibits of Hart Gilchrist	$5,631,032	$0	**$5,631,032**
Testimony and Exhibits of Tammy Nygard	$644,885	$0	**$644,885**
Testimony and Exhibits of Daniel Tillis	$148,545	$0	**$148,545**
Total 2024 Projects	**$101,061,169**	**$39,132,268**	**$140,193,438**
2025 Projects:			
Testimony and Exhibits of Patrick Darras	$60,344,395	$17,121,777	**$77,466,171**
Testimony and Exhibits of Eric Martuscelli	$53,111	$24,617,216	**$24,670,327**
Testimony and Exhibits of Hart Gilchrist	$3,774,940	$0	**$3,774,940**
Testimony and Exhibits of Tammy Nygard	$894,394	$0	**$894,394**
Testimony and Exhibits of Daniel Tillis	$452,801	$0	**$452,801**
Total 2025 Projects	**$65,519,641**	**$41,738,993**	**$107,258,633**

Q. How does the Company propose to handle projects that are cancelled or added during the provisional periods?

A. The Company's capital budget is the best forecast available for the allocation of scarce capital resources in future years. Over time, however, priorities may change for a number of reasons, including construction priorities of other entities, or projects required for continued safety and reliability of the system as discussed further in the direct testimony of Eric Martuscelli. Cascade is proposing that it be allowed to replace authorized projects with newly identified projects in each of the provisional periods subject to refund, and only up to the total of rate base additions authorized in each provisional period. This portfolio approach will allow the Company the flexibility required to meet business needs while still allowing for a thorough evaluation of the used and usefulness of plant placed in service. The Commission has approved this portfolio concept for other Washington utilities, and the approach will prove valuable in allowing for continued progress on projects in the queue.

Q. How are capital additions grouped?

A. In all of the testimony related to plant in service, the Company has grouped the projects into the categories outlined in the Used and Useful Policy. The witnesses identified above discuss 1) Specific projects, which are clearly defined, identifiable, or discrete investments, and 2) Programmatic projects which are made according to a schedule, plan, or method and are generally investments that are necessary to provide safe, reliable service to Washington customers.

Q. Were offsetting factors related to capital additions included in the provisional years?

A. Yes. As described more fully in the testimony of Jacob Darrington, Exh. JAD-1T, the Company included new revenues related to customer growth, updated depreciation, and forecast retirements. In addition, where plant investments may result in O&M savings, Cascade has included those savings as an offset to O&M expenses.

Q. You stated above that Cascade will be subject to a review of its provisional year rates. Please explain the proposed Provisional Review Process.

A. Cascade is proposing the following process to allow for a review of provisional plant. The outlined process will provide adequate opportunity to parties to review, and, if necessary, challenge the recovery of provisional adjustments included in rates as envisioned in the Used and Useful Policy. The following process is consistent with the Commission's direction in its Used and Useful Policy. Rates must be fair to both customers and the public service company.[4] As such, "The Commission does not view allowing companies to recover costs of future plant subject to refund as a pre-approval of the prudency of the investment, nor does it view an order to refund as inconsistent with its obligations under the used and useful standard."[5]

1. An annual retrospective review of all expected additions on a portfolio basis will be conducted. The Used and Useful Policy envisions a process for retrospective review.[6]

2. For all capital additions, by April 30 following the completion of each provisional year 2024 and 2025, Cascade will file a report on the plant that

[4] Used and Useful Policy at ¶ 41.
[5] Used and Useful Policy at ¶ 44.
[6] Used and Useful Policy at ¶ 38.

has been placed into service during the rate effective periods. The report will be filed in this Docket.

3. As circumstances change, capital may need to be redeployed. Cascade will include in the annual report a detailed explanation of any Funding Projects that were placed into service but that were not included in this filing. However, recovery of capital investment will be capped at the overall plant additions approved by Commission Order for each provisional year. The Company reserves the right to seek a deferral for additional costs not recovered through this review process.

4. Each annual report will include the following comparison of the actual Funding Project versus the Commission authorized Funding Projects:

   a. Actual costs versus authorized costs, as well as explanations for significant cost variances, defined as variances greater than 10 percent and $500,000 from the authorized cost;

   b. Actual in-service date;

   c. Any material changes to the project descriptions;

   d. In the case of significant cost overruns, an update to the project description that includes the justification to continue to invest in the project;

   e. Updated information (if any) on offsetting factors for any Funding Projects;

   f. Detailed description of any Funding Projects not approved by Commission Order.

5. All parties will have the opportunity to review the evidence and have the ability to conduct discovery similar to discovery allowed in adjudicative proceedings (including, but not limited to, issuing data requests). Parties may then submit to this docket a response notifying the Commission whether the final reported costs are accepted or contested by that party.

6. The Parties will complete their review and file any response no later than four months (on or before August 31 annually) after the Provisional Review Report is filed by the Company on April 30.

7. After non-Company Parties submit their responses to the Commission, Cascade will file a petition to amend the final order in this docket in accordance with WAC 480-07-875. The petition to amend the final order will indicate whether the parties agree to the proposed rate change or if a dispute exists that would require further process under WAC 480-07-875. If there is no dispute, the petition will specify any changes to the rate year based on updated information or explain that no changes are necessary.

8. Any amounts determined by the Commission to be subject to refund will be deferred for later return to customers, until a change in rates has occurred to reflect the necessary change for the capital amount refunded. Future return of any refunded amounts may be through a separate tariff or other future proceeding. The refunded amount will include interest at the authorized rate of return.

V. END OF PERIOD RATE BASE TREATMENT

Q. What methodology has Cascade used to calculate its rate base in this case?

A. Cascade used End of Period ("EOP") rate base treatment in this case because such treatment is appropriate where, as here, a utility has demonstrated regulatory lag and EOP rate base treatment accurately reflects a company's rate base during the rate effective period[7]

The Commission has found that EOP rate base is appropriate under any of the following conditions: (a) abnormal plant growth; (b) inflation and/or attrition; (c) to mitigate regulatory lag; and/or (d) under-earning over a historical period.[8] Cascade is requesting EOP treatment for test year plant in service as well as the plant that will be placed in service during 2024 and 2025.

Q. Why is EOP treatment still appropriate for Cascade?

A. In the Commission's 1981 decision in *WUTC v. Washington Natural Gas*, the Commission describes the various conditions under which EOP rate base may be justified. While that case identified average of monthly averages ("AMA") rate base as "the most favored" approach, the Commission recognized EOP rate base treatment

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[7] *WUTC v. Puget Sound Energy*, Docket UE-190529 *et al*, Order 08 at ¶ 78 (July 8, 2020) (applying EOP rate base to "present a more accurate, end-of-year valuation of rate base that better reflects the rate base value in the rate effective period").

[8] *WUTC v. Pacific Power & Light Co.*, Dockets UE-140762 *et al*, Order 08 at ¶ 145 (Mar. 25, 2015).

as appropriate under one or more of the following circumstances:

(1) Abnormal growth in plant;

(2) Inflation and/or attrition;

(3) Significant regulatory lag, or

(4) Failure of utility to earn its authorized rate of return over an historical period.[9]

Cascade is continuing to invest heavily in crucial infrastructure upgrades, regulatory lag is an ongoing issue for Cascade, and the Company has experienced chronic under-earning since 2015. The Company's use of EOP rate base treatment is also consistent with the methodology approved in Cascade's most recent general rate case, Docket UG-210755. Accordingly, and as described in more detail below, EOP rate base is the more appropriate treatment for the Company.

<u>Crucial infrastructure upgrades</u>

The years prior to the purchase of Cascade by MDU Resources in 2007 saw declining investment in the Company's distribution system and an accumulation of deferred maintenance. Since 2008, the Company has invested over $629 million to improve the safety and reliability of its system while also providing for the growing energy needs of residential, commercial, and industrial customers through its service territory. The Company's Pipeline Cost Recovery Mechanism ("CRM") has been helpful in expediting recovery of investments to improve the safety of Cascade's system. However, as discussed in greater detail below, the Company is proposing to

[9] *Id.* (citing *WUTC v. Wash. Nat. Gas Co.*, 44 P.U.R. 4th 435, 438 (Sept. 24, 1981)) (emphasis added).

retire its CRM in this proceeding. EOP treatment in both the test year and provisional years will help to mitigate the impact to the Company of retiring the CRM.

Regulatory lag

One of the benefits of a multiyear rate plan is the reduction of regulatory lag. In the schedule the Company is proposing, plant will be in service and used and useful prior to rates going into effect for both the test year period and the two provisional rate effective periods. To realize the benefit of reduced regulatory lag, it is important that the rates include the impact of the full year of plant in service that results from EOP treatment.

Chronic underearning

Finally, the Company has experienced results of operations that have consistently been well below Cascade's authorized rate of return ("ROR"). The Table below shows the achieved rate of return for the 12 months ended December of each year, as well as the authorized ROR for each of those years. These results are based on the Commission Basis Report ("CBR") and include adjusted net operating income and rate base calculated on an AMA basis.

Table 3: Cascade's Results of Operations (in percentages)

Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Authorized (A)	8.85	7.35	7.35	7.31	7.31	7.24	6.95	6.85
Rate of Return (B)	5.73	6.83	6.39	6.58	5.89	6.19	6.14	5.43
(B - A)	-3.12	-0.52	-0.96	-0.73	-1.42	-1.07	-0.81	-1.42

As Table 3 shows, despite the fact that Cascade has completed five general rate cases since 2015, its actual earnings have resulted in earned ROR that continues to be well below its authorized rate of return. The second exhibit to the direct testimony of Jacob Darrington (Exh. JAD-3) shows that the Company again did not achieve its authorized ROR in 2023, with a 5.56 percent ROR based on actual results of operations and a 4.20 percent ROR after restating and pro forma adjustments. End of period rate treatment is warranted based on these factors.

Q. Are you including an exhibit that demonstrates Cascade's ongoing and consistent underearning?

A. Yes. The second exhibit to my Direct Testimony, Exh. LAB-3, presents the Statement of Operations and Rate of Return Reports for the 12 months ending in December of each year for 2015 through 2022. These reports show that Cascade's unadjusted results have been consistently and demonstrably below Cascade's authorized rate of return.

VI. CASCADE'S PROPOSAL TO ELIMINATE ITS COST RECOVERY MECHANISM

Q. Please briefly describe Cascade's Pipeline Cost Recovery Mechanism ("CRM").

A. Yes. The mechanism was authorized for use by the Commission in Docket UG-120715. The purpose of Docket UG-120715 was and is to encourage utilities to invest in replacing aging pipe that is at the most risk to ratepayers' safety. The Commission did this by first requiring the natural gas utilities to create and file a twenty-year plan identifying the most at-risk portions of the pipeline system relying on the Distribution Integrity Management Plan. The process also requires a more specific two-year replacement plan. From this two year plan the Commission allows recovery of the replacement infrastructure each November 1 based on plant expected to be in service by November 1 of each year. The CRM significantly reduces regulatory lag and allows for recovery outside of a general rate case.

Q. Has Cascade found value from the mechanism?

A. Absolutely. Cascade was the first utility to take advantage of the cost recovery mechanism in the first year available and has filed every year for recovery of the critical infrastructure replacement needs.

Q. Have there been any detriments to the program?

A. The only negative to the program is due to timing. Under the program the investment must be in service by the end of October each year. It has been difficult for Cascade to place major projects in service by October each year because a substantial amount of investment typically goes into service during the last couple of months of the year. Therefore, planned projects may not be placed in service in time. This has resulted in planned projects being removed from the recovery request until the following year, thus eliminating a significant portion of the regulatory lag benefits of the cost recovery mechanism.

Q. What is Cascade proposing in this proceeding regarding the CRM?

A. Cascade is proposing to eliminate the CRM to remove the complications associated with timing and rate impacts over the multiyear plan. Cascade's proposal is consistent with the Commission's Final Order 09 in Docket UG-210755. In that proceeding, the Alliance of Western Energy Consumers ("AWEC") requested that the Commission terminate Cascade's CRM. In rejecting AWEC's request, the Commission stated that elimination of the CRM was not yet ripe:

> Instead, the CRM should be evaluated when Cascade files its first multiyear rate plan. We agree with Cascade that 'a multiyear rate plan may be able to reduce regulatory lag associated with replacing the most at-risk pipe, however, it is premature to eliminate the mechanism until that mechanism can be evaluated in the context of such multiyear proposal.[10]

Q. Why is Cascade choosing to eliminate the CRM in favor of the multiyear general rate case recovery?

A. While the effective date of the rate case is four months after the effective date of the next CRM filing, the rate case will include the last two months of 2024 infrastructure replacement investment which is eight months earlier than the next CRM effective date. The same would hold true for the 2025 investment. Further, the Company believes the ongoing multiyear rate plan proceedings will provide a simpler method for all parties to review all additions to plant in service.

Q. Does the Company still intend to file the 2024 CRM in May with a November 1 effective date?

A. Yes.

Q. Why is the company proposing to file the 2024 CRM when the investments are also included in this general rate case?

A. Two reasons: one, to start recovery in a timely manner for the investment in service by the end of October. Two, to preserve the mechanism in the event the Company's

[10] Final Order 09 in Docket UG-210755 at ¶ 199 (internal citations omitted).

multiyear rate proposal is modified or not approved as it relates to the CRM.

Q. Does this complicate the removing the CRM after the conclusion of the rate case?

A. No. Removing the CRM can be easily accomplished in a compliance filing following a final order in this proceeding.

Q Please explain.

A. Cascade is proposing to annualize the effects of the 2023 CRM, which went into effect on November 1, 2023. This means at the conclusion of this proceeding, the 2023 CRM investment will be included in the end of period rate base for 2023 and the corresponding revenue will be annualized to match the investment. At the conclusion of this proceeding, the CRM rates in effect at November 1, 2023 will be removed from the CRM tariff sheet and added to base rates.

Q. What will happen with the remaining CRM rates from the November 1, 2024, effective date?

A. The remaining rate in the CRM tariff schedule will simply be set to zero as the investment for 2024 infrastructure investment is built into the first provisional year revenue requirement.

Q. In the Company's last general rate case in Docket UG-210755 the Commission ordered Cascade to file the movement of CRM rates from the CRM recovery tariff to base rates outside the compliance filing and treat it as a separate docket. Is Cascade proposing something different in this case?

A. Yes. Because the of the timing of the multiyear rate case and the fact that the CRM is being eliminated, there is not the same timing difference that resulted in an actual revenue impact that was associated with previous CRM rates rolling into base rates. In this case it is simply a clean one for one transfer for the 2023 CRM rates and a zeroing out of the CRM tariff at the same time the 2024 investment goes into rates subject to refund.

Q. By zeroing out the CRM tariff isn't that going to result in a rate decrease?

A. That is one way to look at it. However, because the CRM rates went into effect on November 1, 2024, they can also be viewed as early implementation of the first-year provisional rates which include all 2024 investment including the 2024 CRM investment. The CRM must be zeroed out at the same time as the compliance rates in order to avoid double recovery of the CRM investments.

VII. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes.