UG-240141

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March 1, 2024

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Mar 1, 2024

Jeff Killip
Executive Director and Secretary
Washington Utilities & Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Advice No. W24-03-01, Schedule 700, Temporary Climate Commitment Act Adjustment Schedule

Dear Director Killip,

Cascade Natural Gas Corporation (Cascade or Company) submits to the Washington Utilities & Transportation Commission (Commission) the following revisions to its Tariff WN U-3, stated to become effective with service on and after May 1, 2024:

Twenty-eighth Revision of Sheet No. 2-A
Original Sheet No. 700-1
Original Sheet No. 700-2

Purpose
The purpose of this filing is to introduce Cascade's proposed tariff Schedule 700, Temporary Climate Commitment Act Adjustment Schedule, which establishes a new charge and credit related to 2023 and 2024 compliance to the Climate Commitment Act (CCA).

Background
During the 2021-2022 Legislative Session, Washington State lawmakers passed Engross Substitute Senate Bill 5126 (ESSB 5126), more commonly referred to as the Climate Commitment Act or the CCA. ESSB 5126 was codified as Chapter 70A.65 of the Revised Code of Washington (RCW). On September 29, 2022, the Department of Ecology adopted Chapter 173-446 of the Washington Administrative Code (WAC) which outlines how it will administer the CCA.

The CCA, which became effective January 1, 2023, seeks to reduce greenhouse gas (GHG) emissions by 95% of the state's 1990 levels by 2050 through the implementation of a cap-and-invest program designed to meet emission reduction targets.

To reach these aggressive GHG emissions reduction targets, industries associated with carbon dioxide equivalent (CO_2e) emissions, including natural gas utilities, must meet annual emissions reduction targets through reduced gas sales, offset projects, or allowances available for purchase through a Department of Ecology-run emissions allowance auction.

The Department of Ecology provides eligible utilities with no-cost allowances each year. A portion of these allowances may be used to meet the utilities' annual compliance goals while the remaining portion must be consigned to auction and the revenues from their sale must help offset the cost impact of CCA compliance to customers. The number of no-cost allowances provided and the corresponding amount that may be used to meet compliance obligations diminishes each year. In 2023, utilities received 93 percent of their emissions baseline, measured as an average of emissions from 2015-2019, in no-cost allowances, and 65 percent of those had to be consigned to auction with the revenues being passed back to customers. The percentage of no-cost allowances that must be sold at auction increases each year by five percent. By 2030, 100 percent must be sold at auction. The number of no-cost allowances received decreases annually in a stepped progression until 2050, when utilities will not receive any no-cost allowances.

The revenues from the no-cost allowance sales not only reduce the CCA compliance cost for customers, but these funds are also intended to fully offset the compliance cost for known-low-income residential customers. Because the CCA is seeking to reduce carbon emissions, the allowances cannot be used to reduce the compliance costs for customers at sites that were connected to the gas system after July 25, 2021—unless the customer is a known-low-income residential customer.

With this filing, the Company is seeking to recover its actual CCA compliance costs for 2023 and its forecasted 2024 compliance costs, and to credit customers the revenues from its no-cost allowance sales.

Proposed Adjustment Mechanism

WA Climate Act Fee

The Company's proposed Schedule 700, Climate Commitment Act Rate Adjustment, implements a credit and a fee. The charge collects the Company's actual 2023 and the forecasted 2024 CCA compliance costs. The charge is applicable to all customer classes as a per therm charge. As the Commission and interested parties have expressed when reviewing other utilities' CCA fee and credit filings, a volumetric charge achieves the intent of the CCA, which is to impose a cost on carbon emissions. With the proposed volumetric charge, a customer's payment for CCA compliance is appropriately commensurate with the amount of natural gas each customer has used. To determine the WA Climate Act Fee, the Company allocated the CCA costs to each customer class based on total therm usage. Interest accrued during the amortization period is different for the residential customer class because the WA Climate Act Credit, explained in more detail below, changes each month. In addition, the residential customer class includes a fully offsetting credit for known-low-income customers. Because of the interest impact of these differences, the WA Climate Act Fee for the residential customer class is slightly different than the other customer classes.

WA Climate Act Credit

The WA Climate Act Credit mitigates the impact of CCA compliance by distributing to customers the revenues generated from the sale of no-cost allowances. For all customer classes, the credit is the lesser of the maximum WA Climate Act Credit amount as stated in Schedule 700 or 80 percent of the WA Climate Act Fee that the customer has incurred for the month. The 80 percent cap ensures that customers using low volumes of gas continue to pay their fair and equitable portion of the WA Climate Act Fee and that no customer receives a net credit.

The maximum WA Climate Act Credit for residential (Schedule 503) and small commercial (Schedule 504) customers is different each month based on the customer classes' seasonal load shape, allowing the credit to be more substantial in winter months and less in non-winter months. Residential and small commercial customers are the only customer classes with seasonal load shapes. By making the maximum WA Climate Act Credit larger during the peak usage months of the heating season, the WA Climate Act Credit works to level the annual cost impact of the WA Climate Act Fee. For gas heating customers, the WA Climate Act Fee will be more expensive in the winter because more therms will be used. A larger winter credit offsets this impact. This cost mitigation strategy complies with RCW 70A.65.130(2)(b) which requires that CCA revenues be used to "minimize cost impacts on. . . residential and small business customers."

As previously mentioned, because the CCA seeks to incentivize the reduction of GHG emissions, customers served at locations where the gas service was installed after July 25, 2021, do not receive a cost-mitigating WA Climate Act Credit. This parameter complies with RCW 70A.65.130 (2)(c).

The Company intends to include the WA Climate Act Fee and the WA Climate Act Credit as line items on all customer bills to remain consistent with the way all other adjustment schedules are currently presented on Cascade bills. The transparency of itemizing these costs and credits on customer bills is also important in allowing customers to see the impacts of the CCA so they can make informed decisions on how to reduce their CO2e emissions either by reducing their usage or through other methods such as the Company's proposed voluntary renewable natural gas program.[1]

<u>Known-Low-Income</u>
In compliance with RCW 70A.65.130 (2)(b), known-low-income residential customers will be held harmless from CCA compliance costs, receiving a fully offsetting WA Climate Act Credit in the same amount as their WA Climate Act Fee, resulting in a zero percent bill impact. For the purpose of Schedule 700, known-low-income is defined as any residential customer receiving service in the Cascade Arrearage Relief and Energy Saving (CARES) program, defined in Rule 20 and Schedule 302, regardless of whether or not their CARES discount has been suspended for the application of a Low-Income Home Energy Assistance Program (LIHEAP) grant.[2] A residential customer who qualifies for any low-income program administered by or on behalf of the Company—including Low Income Home Energy Savings (LIHEAP), Winter Help bill assistance grants, and Washington Incentive Program (a weatherization and energy efficiency program provided at no direct cost to low-income customers)—is placed in CARES, making participation in CARES the best proxy the Company has for identifying its low-income customers.

CARES is in its first year of service. Since its implementation on October 1, 2023, the program penetration has exceeded six percent of applicable customers as identified in the Company's Low Income Needs Assessment Report (LINA).[3] In its filing to initiate CARES, Cascade predicted it would enroll 10% of eligible customers. Based on initial uptake, the Company believes that with increased and targeted outreach, it

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[1] See proposed Schedule 705, Voluntary Renewable Natural Gas Schedule filed in Cascade Advice No. W24-03-02.
[2] Rule 20 of the Company's natural gas Tariff establishes that a customer's CARES enrollment will be paused when a LIHEAP grant is applied to their account. This provision was added at the request of the Company's Low-Income Advisory Group as they wanted to protect the Community Action Agencies' ability to spend down their annual LIHEAP funds. This provision will not impact a customer's status as known-low-income for the purpose of offsetting the WA Climate Act Fee with an equivalent credit.
[3] Forefront Economics, Peach, H. Gil, *Cascade Natural Gas Corporation Low-Income Rate Analysis for Washington* (a.k.a. Low-Income Needs Assessment or LINA), May 31, 2022.

may exceed its goal. The Company and its Low-Income Advisory Group are continually looking at how to improve the CARES program and ultimately, the program's reach.

<u>Exceptions</u>
Certain customers identified as exempt from CCA compliance per WAC 173-446-040 (2) will not be assessed either the WA Climate Act Fee or the WA Climate Act Credit. Exempt customers include customers designated as covered entities by the Department of Ecology, military sites associated with national security, and customers identified by Department of Ecology as Emissions-Intensive-Trade-Exposed per RCW 70A.65.110.

Accounting Treatment
The CCA compliance costs as well as any revenues are deferred in accordance with Commission Order No. 01 issued in Docket UG-220759. Commission approval for authorization to use deferred accounting treatment of CCA costs and revenues includes the ability to accrue interest on the deferred balance using the Company's actual cost of debt, updated semi-annually on July 1 and January 1. With this filing, the Company seeks Commission authorization to begin recovery and refunding of the balances as well as continued deferral of CCA costs and revenues for future recovery/credit. The Company proposes to track the costs in FERC account 182.3 and the revenues in FERC account 254. This accounting treatment aligns with the Company's current methodology for the accounting treatment of the CCA deferral balance.

True-Up Provision
Schedule 700 includes a provision to true-up up the difference between actual and forecasted costs and revenues. Any difference in actual costs and benefits will be trued up in a future filing. The Company will track the amortization of the costs and credits for each customer class separately. Tracking and truing up each class independently will ensure each class is paying its fair share of CCA costs, receiving its fair share of CCA credits, and that the interest is being applied correctly.

Recovery Period
The recovery period for the proposed temporary adjustment filing is 11-months, with a proposed effective date of May 1, 2024. Cascade intends to file an update to its WA Climate Act Fee and WA Climate Act Credit by February 1, 2025, with an effective date of April 1, 2025. The Company will then file to make the Schedule 700 adjustment true-up annually concurrent with the Company's Purchased Gas Adjustment filings with a November 1 effective date.

CCA Compliance Costs
The cost to comply with the CCA is primarily comprised of three components: the purchase of emissions allowances, deferred costs consisting of labor and consulting, and other costs, all of which are discussed in more detail in this section. Interest is then applied to those components consistent with Commission directive.

The largest source of costs related to CCA compliance is the purchase of emissions allowances at auction. As previously mentioned, the Company purchases allowances through the Department of Ecology-run emissions allowance auctions to meet the annual emissions reduction targets.

The deferred costs include incremental labor related to implementing, tracking, and maintaining the CCA program by Cascade staff. The Company will request to recover the incremental labor costs related to CCA compliance in base rates in its upcoming multi-year rate plan (MYRP). Future CCA filings will include a reduced or zeroed labor amount if the Commission approves the Company's MYRP. Because the

Company's proposed CCA filing includes a true-up provision, any difference in actual labor costs will be trued up in subsequent filings.

In addition to labor costs, consulting costs and other costs are also deferred. The Company contracted with an external consultant to assist with understanding and implementing the CCA, and to provide general guidance related to the CCA. Examples of services and work product provided by the external consultant were training on carbon allowance auctions, development of a modeling tool to manage compliance instrument obligations and plan for compliance instrument needs, assistance in standing up a governance process for compliance instrument purchases, and guidance during the auctions in 2023 to allow the Company to successfully prepare, participate, and analyze results.

Finally, the other costs are for bid guarantee fees and fees related to legal consultation with the Company's external legal advisor to interpret CCA requirements for accurate implementation of the Company's compliance plan, prepare for any changes related to Washington's linking of allowance auctions with California and Quebec, and assist with RNG project contracting.

Customer Bill Impacts
The bill impact for known-low-income residential customers is zero percent. For non-known-low-income residential customers who use 55 therms per month at a location where gas service was installed before July 25, 2021, the Schedule 700 credit and fee will result in an average monthly bill increase of $2.83 or 3.69 percent. A summary of the bill impacts for customers served at locations that were connected to gas service by July 25, 2021, are provided in the Table 1 below. The actual impact may vary and will depend on a customer's actual natural gas usage and is subject to the proposed cap of 80 percent of the billed WA Climate Act Fee.

Table 1 - Bill Impacts for Customers at Locations where Gas Service was Installed on or before July 25, 2021

Customer Class	Current Monthly Bill	Proposed Monthly Difference	Proposed Bill Impact
Known-Low-Income Residential (Sch 503)	$76.72	$0	0%
Non-Known-Low-Income Residential (Sch. 503)	$76.72	$2.83	3.69%
Commercial (Sch. 504)	$348.28	$14.78	4.24%
Industrial (Sch. 505)	$2,497.79	$115.31	4.62%
Large Volume (Sch.511)	$14,209.95	$634.23	4.46%
Interruptible (Sch. 570)	$24,600.66	$1,460.29	5.94%
Transportation (Sch. 663)	$8,372.34	$7,354.14	87.84%

Table 2 provides the bill impacts for customers receiving service at locations where gas service was installed after July 25, 2021.

Table 2 – Customer Bill Impacts for Customers at Locations where Gas Service was Installed after July 25, 2021

Customer Class	Current Monthly Bill	Proposed Monthly Difference	Proposed Bill Impact
Known-Low-Income Residential (Sch 503)	$76.72	$0	0%
Non-Known-Low-Income Residential (Sch. 503)	$76.72	$19.13	24.93%
Commercial (Sch. 504)	$348.28	$95.62	27.45%
Industrial (Sch. 505)	$2,497.79	$753.86	30.18%
Large Volume (Sch.511)	$14,209.95	$4,418.85	31.10%
Interruptible (Sch. 570)	$24,600.66	$8,433.30	34.28%
Transportation (Sch. 663)	$8,372.34	$46,116.49	550.82%

If approved, this filing will increase the Company's revenues by $31.25 million.

<u>Equity Advisory Group</u>
At its December 8, 2023, meeting and again on February 8, 2024, the Company presented its Equity Advisory Group (EAG) with an overview of both the CCA and this filing. The Company presented both the costs and benefits CCA provides for the community. The EAG recommended the Company provide customer communications on its CCA filing that are simply stated so the content can be readily understood by a broad spectrum of people. They further suggested the Company use numerous communication channels to inform customers about this filing. The Company is implementing the EAG's recommendations.

<u>Communications Plan</u>
In compliance with WAC 480-90-194, Cascade will mail customers a bill insert notifying them of the proposed rate increase starting April 1, 2024. Since this is a complex filing, the bill insert is twice the size of a typical bill insert (a folded 8.5 inch by 7 inch rather than 8.5 inch by 3.5 inch), and it is printed front and back, one side in English and the other side in Spanish. The bill insert includes a quick response (QR) code that leads customers to a Cascade Natural Gas webpage that provides additional information about the CCA and this filing, as well as a link to a Frequently Asked Questions webpage. A copy of the customer notice is included with this filing.

In addition to the customer notice and website communications, the Company is also planning to provide customer communications about this filing on social media. Messaging to residential customers about the WA Climate Act Fee will include information on how to enroll in the CARES program. Cascade is also notifying its Low-Income Advisory Group and the representatives from each Community Action Agency within the Company's Washington service territory about this filing and its impact on customer bills.

<u>Workpapers</u>
The attached Excel file titled, "New-CNG-WA24-03-01-WP-03-01-24.xlxs," provides the workpapers demonstrating how the Company determined the WA Climate Act Fee and the WA Climate Act Credit. Below is a description of each tab in the attached workbook.

- Total CCA: An overview of the CCA costs and benefits within the workpapers
- CCA Breakdown: A detailed breakdown of the costs and benefits including the years in which they occurred

- CCA Allocation: A descriptive apportionment of the CCA costs and benefits across rate schedules
- Monthly WA Climate Act Credit, 503 and 504: The calculations for determining the monthly credits for Schedules 503 and 504
- Customer Bill Impact: The bill impacts of the Schedule 700 WA Climate Act Fee and the WA Climate Act Credit
- Rev. Sensitivity Factor: The calculation for Cascade's Conversion Factor for Revenue Sensitive Costs
- 503 Cost, Benefit Amort: The interest and amortization calculations for costs and benefits for Schedule 503
- 504-663 Cost Amort: The interest and amortization calculations for CCA costs for all schedules except 503 Residential
- 504 Benefit Amort, 505 Benefit Amort, 511 Benefit Amort, 570 Benefit Amort, 663 Benefit Amort: The interest and amortization calculations for CCA benefits for their respective schedules

All other pages are additional work papers that support the above information

Components of Filing
The following files are attached in support of this filing:

- NEW-CNGC-WA24-03-01-CLtr-03-01-24.pdf
- NEW-CNGC-WA24-03-01-Trf-03-01-24.pdf
- NEW-CNGC-WA24-03-01-WP-03-01-24.xlxs
- NEW-CNGC-WA24-03-01-Cust-Not-03-01-24.pdf

Conclusion
Cascade requests Schedule 700, become effective May 1, 2024. In support of its proposal, the Company has included its proposed Schedule 700, the customer notice, and workpapers. If you have any questions regarding this filing, please contact me at (208) 377-6015 or Zach Harris at (208) 870-2476.

Sincerely,

/s/ Lori Blattner

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Attachments