Exh. ZLH-1T
Docket UG-240008
Witness: Zachary L. Harris

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 ZACHARY L. HARRIS

March 29, 2024

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Zachary L. Harris and my business address is 8113 West Grandridge Blvd., Kennewick, WA 99336.

Q. By whom are you employed, for how long, 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 Manager Regulatory Affairs. In this capacity, I am primarily responsible for rate design concepts, cost of service studies, tariff administration, and the Company's decoupling mechanism.

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

A. In December of 2008, I received a Bachelor of Science degree in Accounting from Brigham Young University-Hawaii. In December of 2011, I received a Master of Science degree in Accounting from Boise State University.

I have been employed in the utilities industry since 2011, primarily in Regulatory Affairs. I have experience in the electric utility industry, the freight handling and transportation utility industry, and the natural gas utility industry. I have attended the utility ratemaking course offered through New Mexico State University's Center for Public Utilities, as well as other utility specific courses. In November 2021, I became employed by Intermountain Gas Company ("Intermountain"), an affiliated entity that is also a subsidiary of MDU Resources, as a Regulatory Analyst.

In 2023, I was promoted to Manager Regulatory Affairs with responsibility for both Cascade and Intermountain. I have previously sponsored testimony and exhibits before the Idaho Public Utilities Commission regarding different filings for other utilities.

II. SCOPE AND SUMMARY OF TESTIMONY

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

A. My testimony will (i) provide a progress update on the Company's fixed network; (ii) provide general information regarding Cascade's rate design; (iii) provide an overall summary of the Company's proposed tariff changes; (iv) introduce two new temporary recovery mechanisms and tariff schedules for deferral balances related to COVID-19 costs and Washington Utilities and Transportation Commission Fees ("UTC Fees"), respectively; (v) propose changes to the Company's decoupling mechanism included in Tariff Rule 21 Decoupling Mechanism ("Decoupling Mechanism"); (vi) address other proposed changes to Rate Schedule 663 Distribution System Transportation Service ("Schedule 663"); and (vii) address bill impacts and Cascade's proposed tariff schedules.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I sponsor the following exhibits:

- The calculation of the COVID-19 deferral recovery rate;
- The calculation of the UTC deferral recovery rate;
- The calculation of the Authorized Margin Revenue Per Customer for rate effective period 2025 used in Tariff Rule 21;
- The calculation of the Authorized Margin Revenue Per Customer for rate effective period 2026 used in Tariff Rule 21;

- The lost and unaccounted for natural gas percentage calculation used to determine the fuel use factor in Schedule 663;
- Avista Corporation's and Puget Sound Energy's Decoupling Mechanism schedules;
- The Residential Basic Service Charges schedules for peer utilities;
- The 2025 customer bill impact of all rate changes proposed in this proceeding; and
- Cascade's proposed tariff sheets.

III. FIXED NETWORK

Q. Please explain what a fixed network is.

A. A "fixed network" is comprised of devices that read data from encoder receiver transmitters for the purpose of determining customer class usage. The encoder receiver transmitter attaches to a gas meter and collects usage and related data automatically. It then transmits the data to collectors. Together with other associated infrastructure, these devices comprise the Company's "fixed network" which allows for both more granular data as well as automated readings and enables Cascade to collect data needed to perform load studies. For additional discussion of the Company's fixed network, please see the prefiled direct testimony of Patrick C. Darras, Exh. PCD-1T.

Q. Can you provide a progress update on installation of the fixed network?

A. In the Company's 2020 general rate case proceeding, Docket No. UG-200568, Company witness Nicole A. Kivisto provided rebuttal testimony explaining the Company's progress in installing the fixed network and stating that the Company anticipated that installation would be completed by 2022 or 2023.[1] Cascade has made strides in implementing a fixed network, even during unprecedented setbacks such as the COVID-19 pandemic and global supply chain constraints. As of December 31, 2023, Cascade had converted and/or installed approximately 62 percent of its overall customers to the fixed network. Cascade's updated completion date for installation of the fixed network is the third quarter of 2024.

Q. What caused the delay from the Company's initial anticipated completion date?

A. As mentioned above, Cascade experienced unprecedented delays due to ongoing supply chain shortages, as well as extensive overseas shutdowns due to the COVID-19 pandemic. For example, the fixed network devices were ordered in August 2021, but were delayed due to the pandemic and did not arrive for two years. Regardless of these extraordinary events, the Company endeavored to implement its fixed network in a timely manner.

Q. How was the fixed network used in this case?

A. WAC-480-85-050 requires a utility's cost of service study to meet certain characteristics for granularity, whether from advanced metering technology or from a load study. The data available from Cascade's fixed network deployment was used to inform the development of a load study as described in greater detail in the prefiled direct testimony of Ronald J. Amen, Exh. RJA-1T.

IV. PROPOSED RATE DESIGN

[1] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Exh. NAK-2T at. 23:10-12 (Jan. 8, 2021).

Q. What rate design considerations were part of this multiyear rate plan?

A. The Company engaged Atrium Economics, LLC ("Atrium") to perform a Cost of Service Study ("COSS") and develop resulting rate design options. The intent of the Company in deciding on a final rate design was to take a meaningful step towards cost-of-service based rates as part of this multiyear rate plan, while balancing potential customer impacts. This is discussed more fully in the prefiled direct testimony of Ronald J. Amen, Exh. RJA-1T.

The COSS revealed that one area of mis-alignment with cost-based rates is the Company's Basic Service Charges. Cascade has not increased its Basic Service Charges since 2017, and the Company has the lowest Basic Service Charge for residential customers when compared to its peer natural gas utilities, as shown in Table 1 below.

Table 1 – Comparison of Basic Service Charges - Residential[2]

Customer Class	Cascade	Avista	Puget Sound Energy	NW Natural
Residential	$5.00	$9.50	$12.50	$8.00

The updated COSS conducted by Atrium provided a sound basis to review the fixed components of rates. The Company believes a reasonable increase in its Basic Service Charge is an amount that brings the charge closer to a cost-based allocation.

The Company was also mindful of the impact of its recent Climate Commitment Act

[2] *See* Exh. ZLH-8.

("CCA") recovery filing[3] when looking at rate design for this multiyear rate plan. The CCA recovers all compliance costs through a volumetric per therm rate. Increasing the Basic Service Charge in this multiyear plan will help to balance the impact of the increases in volumetric rates customers will experience as a result of CCA decarbonization compliance.

Q. What is decarbonization and how does it affect rate design?

A. The goal of decarbonization is to reduce or eliminate greenhouse gas emissions. The Company's decarbonization efforts are discussed in more detail in the prefiled direct testimony of Scott W. Madison, Exh. SWM-1T. As described in Exh. SWM-2, "[a]lthough pipeline gas consumption decreases for net-zero scenarios, peak gas demands can remain relatively high."[4] While natural gas sales may decline due to decarbonization, the Company's overall investments in fixed costs may not decrease because the natural gas distribution system will remain important for energy reliability. Aligning the Basic Service Charge—which is intended to recover the fixed costs of providing basic service—with Atrium's cost of service study and with comparable peer utility rates, will help align the costs with recovery.

Q. What options did the Company consider when evaluating how to recover the revenue requirements associated with the provisional years of the MYRP?

A. In compliance with the Commission's Used and Useful Policy Statement in Docket

[3] The Company recently filed a request to recover costs associated with complying with the Climate Commitment Act ("CCA"). The CCA recovers all compliance costs through a volumetric per therm rate. *See* Docket UG-240141, filed March 1, 2024.

[4] Exh. SWM-2, p. 24-25.

U-190531, the Company is required to state whether it is seeking recovery through base rates or a separate tariff schedule for the identification of investments in its next general rate case proceeding.[5] The Company considered creating a separate tariff schedule that would recover the incremental investments associated with the provisional years in its revenue requirement. However, Cascade determined the most effective approach to recover the incremental increases in its revenue requirement due to the provisional years is through base rates. The first proposed rate effective date is March 1, 2025, which includes the 2023 test year and 2024 provisional year amounts. The second proposed rate effective date is March 1, 2026, which includes the second provisional year (2025).

Q. Please summarize the proposed changes in Cascade's tariff schedules.

A. Cascade is proposing to update the rates in each tariff schedule based on the Company's proposed increase in its revenue requirement and resulting rate design as discussed in the direct testimony of Ronald Amen, Exh. RJA-1T. The following Table 2 illustrates the proposed changes effective March 1, 2025 and March 1, 2026.

Table 2

Customer Class	Current Rate	Rate Effective March 1, 20205	Rate Effective March 1, 2026
Residential - 503			
Basic Service Charge	$5.00	$10.00	$11.50
Delivery Charge	$0.33951	$0.44047	$0.44502
Cost Recovery Mechanism	$0.01769	$0.00000	$0.00000
Commercial - 504			
Basic Service Charge	$13.00	$20.00	$25.50
Delivery Charge	$0.28432	$0.32666	$0.32828
Cost Recovery Mechanism	$0.01096	$0.00000	$0.00000

[5] *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 ¶ 34 (January 31, 2020).

Industrial - 505			
Basic Service Charge	$60.00	$100.00	$130.00
Delivery Charge - first 500 therms	$0.21929	$0.26610	$0.26741
Delivery Charge - next 3,500 therms	$0.17998	$0.22031	$0.22139
Delivery Charge - over 4,000 therms	$0.17404	$0.21339	$0.21444
Cost Recovery Mechanism	$0.00915	$0.00000	$0.00000
Large Volume - 511			
Basic Service Charge	$125.00	$250.00	$350.00
Delivery Charge - first 20,000 therms	$0.17424	$0.21524	$0.22357
Delivery Charge - next 80,000 therms	$0.13551	$0.16884	$0.17538
Delivery Charge - over 100,000 therms	$0.03970	$0.05405	$0.05614
Cost Recovery Mechanism	$0.00541	$0.00000	$0.00000
Interruptible - 570			
Basic Service Charge	$163.00	$300.00	$400.00
Delivery Charge - first 30,000 therms	$0.09838	$0.14149	$0.14691
Delivery Charge - over 30,000 therms	$0.03301	$0.05299	$0.05502
Cost Recovery Mechanism	$0.00613	$0.00000	$0.00000
Transport - 663			
Contract Demand	$0.20	$0.40	$0.45
System Balancing Charge	$0.00040	$0.00110	$0.00110
Basic Service Charge	$625.00	$1,000.00	$1,200.00
Delivery Charge - first 100,000 therms	$0.06463	$0.07487	$0.07539
Delivery Charge - next 200,000 therms	$0.02542	$0.03040	$0.03061
Delivery Charge - next 200,000 therms	$0.01659	$0.02039	$0.02053
Delivery Charge - over 500,000 therms	$0.00941	$0.01225	$0.01234
Cost Recovery Mechanism	$0.00139	$0.00000	$0.00000

As the above Table illustrates, the Company is proposing to increase the Basic Service charges in two steps over the course of the multiyear plan for all customer classes.

V. COVID-19 AND COMMISSION FEE DEFERRAL RECOVERY

Q. Why is the Company requesting to recover the deferred costs related to COVID-19?

A. In Docket UG-200479, Cascade was authorized by the Washington Utilities and Transportation Commission ("Commission") to defer several COVID-19 related expenses, including bad debt, late payment fees, direct costs, and disconnection and reconnection charges.[6] Consistent with that authorization, the Company is now requesting to recover the deferred COVID-19 costs addressed in Docket UG-200479 and to amortize the balance over a specific period of time discussed in more detail below.

Q. How is the Company proposing to recover the deferrals related to COVID-19?

A. The Company is proposing a new tariff schedule to recover the deferred balance, amortized over two years. The deferred balance is the amount deferred through February 2025 that is specifically related to COVID-19 costs. The Company made an adjustment to restate test year expenses for the amount deferred in 2023 related to the COVID-19 deferral account as part of its revenue requirement calculation. Because of this adjustment, the expense will be included in base rates if the Commission approves the Company's revenue requirement.

However, the adjustment to base rates does not provide recovery of amounts previously deferred or of the amounts that will continue to be deferred until new base rates become effective March 1, 2025. For this reason, the Company is proposing a new tariff schedule to recover the COVID-19 deferral over a two year period.

Q. How did the Company determine the estimated February 2025 deferral balances for the COVID-19 deferral account?

A. For the COVID-19 deferral accounts, the Company began with the January 2024 actual balances and removed deferred amounts related to interest costs on past due

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[6] *See generally In re Petition of Cascade Natural Gas Corporation For an Order Approving Deferral of Costs Associated with the COVID-19 Public Health Emergency*, Docket UG-200479, Orders01; *id*. at Order 02; *id* at Order 03.

customer account balances. The Company then removed costs related to the credit and collections department that were recorded to the deferral instead of lost revenues associated with late payment charges and reconnection fees because the Company was not allowed to defer those amounts due to accounting rule restrictions. After removing these items, the Company then added in the total lost revenues through January 2024 that it had been separately tracking. After making these adjustments, the net adjusted deferral amount as of January 31, 2024, was $5,861,739. To this balance, the Company then added in the estimated costs associated with bad debt expense and lost revenues related to late payment charges and reconnection fees, as well as estimated costs savings for the February 2024 through February 2025 period. This resulted in an estimated balance of $7,924,722 as of February 28, 2025. Dividing this amount by two (for the proposed two-year amortization period) and then grossing up the balance for revenue sensitive items, the total estimated deferral amount for which the Company is seeking recovery is $4,167,572. The first exhibit to this prefiled direct testimony, Exh. ZLH-2 shows the determination of the COVID-19 deferral amount and associated workpapers.

Q. What rate design methodology does the Company propose to recover the COVID-19 deferral amount?

A. The Company proposes separate rates for each customer class to recover the COVID-19 deferral amount. The Company allocated the deferral balance to each customer class based on the amount of revenue each customer class is allocated to the Total Customer Accounts, Service, and Sales Expense (“Customer Accounts”) in the

Company's cost-of-service study.[7] The Customer Accounts is primarily comprised of uncollectible accounts and customer records and collection expenses, which are also the primary costs related to the COVID-19 deferral balance. This methodology is the most equitable approach to recover a balance that is related to late payment fees and disconnection and reconnection charges. The methodology, resulting rates and overall revenue increase are shown in the first exhibit to my prefiled direct testimony, Exh. ZLH-2. The proposed rate is found in the Company's new proposed Tariff Schedule 556 COVID-19 Cost Recovery Adjustment.

Q. Are there any other requests that the Company is proposing in relation to these COVID-19 deferral?

A. Yes, the Company requests to discontinue the COVID-19 deferred accounting quarterly report required by Order 01 in Docket U-200281 and provided in Docket UG-200479. Recovering the historical costs of the deferral and including the expense in base rates ensures the recovery of the costs. The deferral will be fully recovered and a quarterly report will no longer be necessary.

Q. Why is the Company requesting to recover the deferred costs related to Commission Fees?

A. Senate Bill 5634 was signed into law on March 24, 2022, raising the Commission's regulatory fee from 0.2 percent to 0.4 percent. At the time, the updated rate enacted by Senate Bill 5634 effectively doubled the regulatory fee that Cascade paid to the Commission. This meant Cascade's then-effective revenue was no longer set at a

[7] *See* Exhibit RJA-4, page 27.

level needed to recover the full Commission Fee. On December 2, 2022, the Company filed a petition with the Commission to utilize deferred accounting treatment for the increase in regulatory fee costs.[8] The Commission approved the Company's petition on January 26, 2023.[9] Consistent with that approval, the Company is now requesting to recover the deferred Commission Fee costs and amortize the balance as discussed in more detail below.

Q. How is the Company proposing to recover the deferrals related to the UTC Fees?

A. The Company is proposing a new tariff schedule to recover the deferred balance, amortized over two years. The deferred balance is the amount deferred through February 2025 that is specifically related to Commission Fees. The Company made an adjustment to restate test year expenses for the amount deferred in 2023 related to the Commission Fee deferral account as part of its revenue requirement calculation. Because of this adjustment, the expense will be included in base rates if the Commission approves the Company's revenue requirement.

However, the adjustment to base rates does not provide recovery of amounts previously deferred or the amounts that will continue to be deferred until new base rates become effective in March 2025. For this reason, the Company is proposing a new tariff schedule to seek recovery over two years of the amount deferred through February 2025 in the Commission Fee deferral account.

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[8] *See In the Matter of Cascade Natural Gas Corporation For an Order Authorizing Deferred Accounting Treatment for Increased Costs Associated with the Updated WUTC Regulatory Fee Approved in Senate Bill 5634 (2022)*, Docket UG-220912, Petition of Cascade Natural Gas Corporation (Dec. 9, 2022).

[9] *See id*. at Order 01 at ¶¶ 7-8.

Q. How did the Company determine the estimated February 2025 deferral balances for the Commission Fee deferral account?

A. For the Commission Fee deferral account, the Company began with the January 2024 actual balance of $769,075 and then increased the balance by the estimated increase of the Commission Fee accrual amount, including interest expense, for the February 2024 through February 2025 period. The total estimated balance as of February 28, 2025 is $1,648,628. Dividing this amount by two (for the proposed two-year amortization period) and then grossing up the balance for revenue sensitive items, the total estimate deferral amount for which the Company is seeking recovery is $867,005. The second exhibit to my prefiled direct testimony, Exh. ZLH-3 shows the determination of the Commission Fee deferral amount as well as the overall revenue increase.

Q. What rate design methodology does the Company propose to recover the Commission Fee deferral amount?

A. The Company proposes a rate for each customer class based on the total revenues from each class divided by expected volumes from each class. This methodology follows the collection of the Commission Fee in general rates. This methodology is the most equitable approach to recover a deferral that is related to gross revenues. The methodology and resulting rates are shown in Exh. ZLH-3. The proposed rate is found in the Company's new proposed Tariff Schedule 555 Commission Fee Adjustment.

Q. Does the Company intend to true-up the balances at the end of the two-year

amortization period?

A. Yes. Both rates include an estimate for the deferral until general rates go into effect and the deferral accrual will cease. The deferral accounts will reflect actual costs at that date. Also, since the Company is proposing a two-year amortization period with separate recovery tariffs, this allows the Company to potentially eliminate the tariff if the balances reach zero prior to the end of two-year period. Any residual balance, positive or negative, at the conclusion of the amortization period, will be rolled into a comparable residual balance to be amortized during the routine annual Purchased Gas Adjustment filings.

VI. DECOUPLING MECHANISM

Q. Please describe the Company's current Decoupling Mechanism.

A. The Company's current revenue-per-customer Decoupling Mechanism was approved in Docket No. UG-152286 and became effective November 1, 2017.[10] The Decoupling Mechanism is a true-up mechanism that breaks the link, or "decouples", natural gas sales from revenue to remove the financial disincentive that would otherwise exist when the Company invests in energy efficiency and provides customers with access to conservation programs. The Decoupling Mechanism trues-up the difference between authorized margin revenues per customer and margin revenues recovered through the volumetric per therm charge. The authorized margin revenues per customer are established in a general rate case proceeding wherein authorized margin is determined. The difference is the deferral balance.

[10] *See WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Order No. 04 at ¶¶ 8-9 (July 7, 2016) (approving the decoupling mechanism).

Q. To which customer classes does the Decoupling Mechanism apply?

A. The Decoupling Mechanism applies to all customers served on Schedules 503 (Residential Service), 504 (General Commercial Service), 505 (General Industrial Service), 511 (Large Volume General Service), and 570 (Interruptible Service). Each customer class has a separate decoupling deferral balance calculated each year, with separate interest balances that are tracked for each corresponding customer class. In addition, each customer class has an authorized margin revenue per customer, per month. Finally, each customer class is also individually subject to the special condition that an incremental proposed rate increase cannot exceed three percent.

Q. What conditions apply to the current Decoupling Mechanism?

A. Cascade's Decoupling Mechanism currently requires an earnings test be performed on the overall deferral amount. The earnings test is based on the Company's year-end Commission Basis Report ("CBR"). If the CBR results in an earned rate of return greater than the Company's authorized rate of return, the deferral amount that would be amortized as a surcharge is decreased by 50 percent. If the CBR results in an earned rate of return greater than the Company's authorized rate of return, the deferral amount that would be amortized as a rebate is increased by 50 percent. If the CBR results in an earned rate of return less than the Company's authorized rate of return, no adjustment is applied to the deferral amount.

In addition to the earnings test, a special condition applies wherein the amount of an incremental proposed rate increase resulting from the Decoupling Mechanism cannot impact the overall per therm rate charged for natural gas and transmission services by more than three percent.

Finally, the Company is required to procure an independent audit of the Decoupling Mechanism every three years. The independent audit is a third-party evaluation of the mechanism and a report provided to the Commission.

Q. Is the Decoupling Mechanism working as intended?

A. Yes, the intent of the Decoupling Mechanism is being accomplished. The Decoupling Mechanism is intended to remove the financial disincentive that would otherwise exist for the Company to invest in energy efficiency. The Company recently filed with the Commission the third-party evaluation, Cascade Natural Gas Decoupling Evaluation 2020-2022 ("Decoupling Evaluation"), prepared by H. Gil Peach & Associates on March 8, 2024 in Docket UG-152286.[11] In the Decoupling Evaluation, it was concluded that Cascade followed the computations for cumulative deferral and interest for the determination of the decoupling rates, and appropriately applied the earnings test and the three percent test for each year, consistent with the Commissions orders.[12]

In addition, the Decoupling Evaluation shows that the Decoupling Mechanism has resulted in mostly small bill impacts that are within the range of expectation,[13] including minimal impacts on low-income customer bills.[14] The Decoupling Evaluation also found that Cascade has established a "record of excellence and of

[11] *See generally WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Cascade Natural Gas Decoupling Evaluation (March 8, 2024).

[12] *See id*. at 28.

[13] *Id*. at 38.

[14] *Id*. at 55 (concluding that over the 2020-2022 period, low-income customers sometimes paid more and other times received a higher rebate than residential customers as a whole).

consistent good faith in fulfilling the overall conservation portfolio, including the commercial, industrial, and residential components of conservation program achievement through the span of the decoupling years to date[.]"[15] Finally, per the Decoupling Evaluation, the Company's Decoupling Mechanism has had a stabilizing effect on revenue, reducing variability.[16]

Overall, the Company is calculating rates and deferrals in accordance with Commission orders approving the Decoupling Mechanism, actively pursuing conservation, and achieving stable revenue, all while minimizing impacts on customer bills. The Decoupling Mechanism is intended to provide the Company a means to pursue conservation while being agnostic to potential financial disincentives and, thus far, has demonstrated to be an effective way to achieve this desired intent.

Q. What changes are being proposed by the Company for its Decoupling Mechanism?

A. The Company is proposing four changes to its Decoupling Mechanism:

1. Update the earnings test to align with RCW 80.28.425(6);
2. Simplify the Decoupling Mechanism by creating two general groups for the calculation and tracking of the deferral amounts;
3. Establish an indefinite term for the Decoupling Mechanism; and
4. Discontinue the third-party evaluation of the Decoupling Mechanism.

Each of these proposals is discussed in more detail below.

Q. Generally, why is Cascade proposing these changes at this time?

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[15] *Id*. at 64-65.
[16] *Id*. at 70.

A. The Decoupling Mechanism has existed for over five years and has proven to be an effective mechanism for the Company and customers. While the Decoupling Mechanism has remained largely unchanged since its inception in 2017, surrounding circumstances have continued to evolve that necessitate the need to change. For example, the new rule for multiyear rate plans, including the embedded rule to defer all revenues in excess of 0.5 percent higher than the authorized rate of return,[17] require a change in the mechanism.

Q. Please explain the proposed change to the earnings test.

A. The Company proposes to change the earnings test as it applies to the Decoupling Mechanism to align with the requirements in RCW 80.28.425(6). That statutory provision provides that if the annual CBR demonstrates that the reported rate of return on rate base for the 12-month period ending as of the end of the period for which the annual CBR is filed is more than 0.5 percent higher than the rate of return authorized by the Commission, the Company must 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. Adjusting the earnings test to incorporate this statutory requirement aligns Cascade's Decoupling Mechanism with the Company's general treatment of revenues and state law.

Q. Why is Cascade proposing to create two general groups for the calculation and tracking of the decoupling deferral amounts?

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[17] *See* RCW 80.28.428(6).

A. The Company is proposing two general groups for the Decoupling Mechanism for a few reasons. First, the Decoupling Evaluation recommended dropping customer classes with fewer customers.[18] By combining customer classes into a general group, the overall impact and calculation of the decoupling deferral amount can be more effectively spread over a larger customer count.

Second, this proposal simplifies the annual rate calculation, thereby relieving Cascade's administrative burden. As previously stated, Cascade currently tracks the deferral balance for each individual customer class, including the interest amounts. The balances are then trued-up each year with the annual filing. Having two groups instead of five individual customer classes relieves the administrative burden currently associated with the Decoupling Mechanism.

Finally, creating two groups for the Decoupling Mechanism aligns with the approach from other natural gas utilities in Washington.[19] A unified approach among natural gas utilities provides stability and ease of understanding for customers that may have locations in various service territories across the state.

Q. Please explain the proposed composition of the two groups.

A. The first group would be comprised of the residential and general commercial customer classes (Rate Schedules 503 and 504, respectively). These customer classes are grouped together because they are both weather sensitive, meaning their usage increases in the winter months and decreases in the summer months. Both customer

[18] *See WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Cascade Natural Gas Decoupling Evaluation at 84.

[19] *See* Exh. ZLH-7.

classes would also have relatively similar "Authorized Margin Revenue Per Customer" amounts if the calculation was performed for individual customer classes. The second group is comprised of the general industrial, large volume, and interruptible customer classes (Rate Schedules 505, 511, and 570, respectively). The customer classes are grouped together because they are less weather sensitive. In addition, these customer classes have relatively similar "Authorized Margin Revenue Per Customer" amounts if the calculation was performed for individual customer classes.

An explanation for the determination of the "Authorized Margin Revenue Per Customer" is discussed in more detail below. Exh. ZLH-4 shows the Authorized Margin Revenue Per Customer for each individual customer class, as well as each group, for 2025. Exh. ZLH-5 shows the Authorized Margin Revenue Per Customer for each individual customer class, as well as each group, for 2026.

Q. Please explain why the Company proposes to discontinue the third-party evaluation of the Decoupling Mechanism.

A. As demonstrated through Cascade's compliance filings since the Decoupling Mechanism was approved in 2017, the Commission's consistent approval of the Decoupling Mechanism, and the recently-filed Decoupling Evaluation, the Decoupling Mechanism is working as intended and is generally an uncontested issue. As previously mentioned, the Decoupling Mechanism has existed over five years and has proven to be an effective mechanism for the Company and customers. Two third-party evaluations have been provided that have confirmed the effectiveness of the

Decoupling Mechanism.[20] If the Commission approves Cascade's request to establish an indefinite term for the Decoupling Mechanism, a third-party evaluation is no longer needed. Each evaluation costs the Company, and ultimately customers, money to pay for the evaluator. In addition, the Company provides an annual conservation plan to the Commission, providing valuable information regarding the effectiveness and progress of Cascade's conservation efforts. The Company also provides the CBR each year, showing rate of return valuation information. Finally, periodic reviews can still be performed at the request of the Commission, if the Commission determines it is necessary.

Q. Is the Company proposing to update the authorized margin revenue per customer?

A. Yes. Consistent with the methodology set forth in the joint settlement agreement approved by Order No. 04 in Docket UG-152286,[21] Cascade proposes to update its authorized margin revenue per customer per month to reflect the proposed changes in its revenue requirement.

Q. How is the authorized margin revenue per customer calculated?

A. The monthly authorized margin revenue per customer is calculated in a manner that reflects the seasonal natural gas loads, or usage shaping, each month throughout the year. This is a multi-step process. First, the annual proposed margin revenue per

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[20] *See WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Cascade Natural Gas Decoupling Evaluation (March 8, 2024); *WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Cascade Natural Gas Decoupling Evaluation (September 23, 2021).

[21] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Order No. 04 Final Order Approving Settlement (July 7, 2016); *see also id*. at Appendix A to Joint Settlement Agreement (May 13, 2016).

customer class is divided by the annual test year therms per customer class. This results in an annual margin per therm rate for each customer class. Second, the annual margin per therm rate is multiplied by the respective monthly therms for each customer class to determine the monthly margin revenue amount. Finally, the monthly margin revenue amount is divided by the customer count. The final result is the authorized margin revenue per customer as shown in Exhs. ZLH-4 and ZLH-5. The Company calculated both years to account for the multi-year rate plan.

Q. How does the multi-year rate plan effect the authorized margin revenue per customer?

A. The multi-year rate plan ("MYRP") includes the 2023 test year and two provisional years, 2024 and 2025 respectively. The Company has proposed the first requested revenue increase become effective March 1, 2025, which would include the 2023 test year and the first provisional year. The second provisional year would become effective March 1, 2026. The two separate rate effective periods include increases in the Company's margin, which directly impacts the authorized margin revenue per customer amount. Due to the MYRP, the Company is proposing to update its authorized margin revenue per customer to align with the proposed revenue increase effective March 1, 2025, and a second update to the authorized margin revenue per customer to align with the second rate effective date March 1, 2026. The proposed authorized margin revenue per customer for each year, as well as the calculations based on the methodology described above, are in Exh. ZLH-4 and Exh. ZLH-5. The authorized margin revenue per customer amounts are included in the Company's proposed Tariff Rule 21, Decoupling Mechanism ("Rule 21").

Q. How is the Company proposing to incorporate the proposed changes to the Decoupling Mechanism in its tariff?

A. The changes are included in the Company's proposed revised tariff sheets. Tariff Rule 21 includes the changes to the earnings test, aggregating the customer classes into two groups, changing the term to an indefinite term, and removing the reporting requirement for an independent audit. The Company is not proposing any changes to its Schedule 594, Decoupling Mechanism Adjustment ("Schedule 594"), at this time. If the Company's proposal is accepted, Cascade will update Schedule 594 with its annual true-up filing after a new deferral balance has been calculated using the two new groups and will propose new rates to recover the deferral balance for each group.

VII. OTHER SCHEDULE 663 PROPOSED REVISIONS

Q. Are there other proposed changes the Company is making to its tariff?

A. Yes, the Company is proposing two changes to Schedule 663. First, Cascade proposes to update to its fuel use factor based on the "lost and unaccounted for" gas on the distribution system. Second, Cascade is removing the gross revenue fee as a separate charge in Schedule 663.

Q. How does the Company determine the lost and unaccounted for natural gas percentage?

A. Cascade utilizes a 60-month period to compare the natural gas it received on its system with the gas it sold to customers. The cumulative difference between the received natural gas and sold natural gas is the lost, or found, natural gas. The lost and unaccounted for percentage is the percentage of the cumulative lost or found natural gas of the cumulative sold natural gas. A 60-month period is used to normalize the monthly variances that could occur between the billing (sales) of natural gas and the receiving of natural gas. Exh. ZLH-6 shows the calculation for the lost and unaccounted for percentage. The lost and unaccounted for percentage is the fuel use factor applied to customers' bills receiving service under Schedule 663.

Q. What is the proposed recommended update to the fuel use factor in Rate Schedule 663?

A. The Company proposes updating the lost and unaccounted for percentage in Schedule 663 from 0.2479 percent to 0.3237 percent. The increase reflects the fact that the Company received more natural gas than it sold over the 60-month period compared to the current percentage.

Q. Why is Cascade proposing the removal of the gross revenue fee from Schedule 663?

A. Cascade has uniformly included the application of the current gross revenue fee in the revenue requirement applicable to all classes, thereby eliminating the need for the separate treatment for 663 customers.

VIII. BILL IMPACTS

Q. What are the customer bill impacts of the proposed tariff changes effective March 1, 2025?

A. The following Table 3 summarizes the impact to customer bills of both the COVID-19 Cost Recovery Adjustment and the Commission Fee Adjustment described in greater detail above, as well as the base rate increase proposed in this multiyear rate plan. The final columns of the table show the combined bill impact of all three rate changes. The detail related to the calculation of customer bill impacts is included as Exh. ZLH-9.

Table 3								
March 1, 2025	**COVID-19**		**UTC Fees**		**Rate Case**		**Overall**	
	Bill	**Bill**	**Bill**	**Bill**	**Bill**	**Bill**	**Bill**	**Bill**
Service, Schedule No.	**Difference**	**% Change**	**Difference**	**% Change**	**Difference**	**% Change**	**Difference**	**% Change**
Residential, Schedule 503	$1.40	1.88%	$0.17	0.23%	$9.40	12.62%	$10.97	14.73%
Commercial, Schedule 504	$1.69	0.48%	$0.58	0.16%	$15.69	4.42%	$17.96	5.06%
Industrial Firm, Schedule 505	$12.30	0.51%	$2.93	0.12%	$107.14	4.47%	$122.37	5.11%
Large Volume, Schedule 511	$7.59	0.05%	$14.89	0.09%	$624.96	3.93%	$647.43	4.07%
Industrial Interruptible, Schedule 570	$7.74	0.03%	$14.48	0.06%	$1,060.44	4.13%	$1,082.67	4.22%
Transport, Schedule 663	$7.38	0.05%	$88.59	0.61%	$6,061.67	32.98%	$6,157.65	33.50%

Q. What are the customer bill impacts of the proposed tariff changes effective March 1, 2026?

A. The following Table 4 shows the bill impact to customers of the proposed Rate Year 2's incremental base rate increases.

Table 4		
March 1, 2026	**Rate Case**	
	Bill	**Bill**
Service, Schedule No.	**Difference**	**Percent Change**
Residential, Schedule 503	$1.74	2.08%
Commercial, Schedule 504	$5.95	1.60%
Industrial Firm, Schedule 505	$32.33	1.29%
Large Volume, Schedule 511	$217.02	1.31%
Industrial Interruptible, Schedule 570	$235.35	0.88%
Transport, Schedule 663	$1,218.34	4.98%

IX. Tariff Schedules

Q. Has the Company provided proposed tariff sheets?

A. Yes, the Company is filing the following revised Sheets, provided in Exh. ZLH-10 to my prefiled direct testimony.

Twelfth Revision	Sheet No. 25	Decoupling Mechanism
First Revision	Sheet No. 25-A	Decoupling Mechanism
Second Revision	Sheet No. 25-B	Decoupling Mechanism
Sixty-Ninth Revision	Sheet No. 503	Residential Service Rate
Fifty-Third Revision	Sheet No. 504	General Commercial Service Rate
Fifty-Second Revision	Sheet No. 505	General Industrial Service Rate
Seventieth Revision	Sheet No. 511	Large Volume General Service
Original	Sheet No. 555	Commission Fee Adjustment
Original	Sheet No. 556	COVID-19 Cost Recovery Adjustment
Sixty-Fourth	Sheet No. 570	Interruptible Service
Twenty-Second Revision	Sheet No. 663	Distribution System Transportation Service
Thirteenth Revision	Sheet No. 663-A	Distribution System Transportation Service

The proposed tariff sheets include revisions to base rates on Sheet Nos. 503, 504, 505, 511, 570, and 663. Sheet Nos. 663 and 663-A also include other proposed revisions discussed above. In addition, Cascade proposes two new tariff schedules that are included as Sheet Nos. 555 and 556. Finally, Cascade is proposing changes to the

Company's tariff Rule 21, Decoupling Mechanism, included on Sheet No. 25, 25-A, and 25-B.

X. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes, it does.