CASCADE NATURAL GAS CORPORATION
A Subsidiary of MDU Resources Group, Inc.

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March 24, 2022

Ms. Amanda Maxwell
Executive Director and Secretary
Washington Utilities & Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Regarding: **Tariff Revision, Advice No. CNG/W22-03-02**

Dear Ms. Maxwell:

Cascade Natural Gas Corporation ("Cascade" or "Company") files the following revisions to its Tariff, WN U-3, stated to become effective with service on and after May 1, 2022:

- Fifth Revision Sheet No. 581

Cascade makes the following filing to rectify a potential Internal Revenue Service normalization violation. This filing is intended to correct a potential normalization violation as it relates to the amortization of the Protected Plus Excess Deferred Income Tax ("EDIT").

History:

During Cascade's 2018 general rate case in Docket UG-170929, a method was put in place to amortize an historical level of protected EDIT each year and true-up each year to the actual amortization amount. The intent of the mechanism was to prevent passing back the excess deferred tax balance faster than the ratable method on the company's books which could result in a normalization violation.

The method has been in place for three adjustment cycles and has been working as intended. However, in light of the Private Letter Ruling ("PLR") Puget Sound Energy ("PSE") recently received, Cascade believes the method implemented in Docket UG-170929 very well could result in a normalization violation as the method treats the amortization of the protected EDIT differently from all other components of rate base.

Proposed Filing:

Cascade's filing to eliminate the potential of a normalization violation consists of four components. In the first component, Cascade is proposing to set the amortization rate prospectively as though the amortization was a 2019 test year component in its last rate case, UG-200568. The Washington ARAM for 2019 was $1,513,155 and the grossed up rate would refund $2,004,684 using the conversion factor and volumes approved in UG-200568. The revisions to Schedule 581 included in this case reflect the implementation of this first component. The margin revenue impact of is an overall decrease of $5,958 or 0.01%.

The second component establishes a deferred balance to reflect the over-refund to customers. The over-refund is generated from three periods. The first period is from August 2018 when the amortization rate was established in Docket UG-170929. This rate should not have been put in place as the rate base was based on a 2016 test year and the protected EDIT was based on 2018, thus creating a mismatch and potential violation. The refund was in place until Cascade's next general rate case, Docket UG-190210, went into effect on March 1, 2020. The over-refund for the first period amounts to $3,115,977.17. The second period relates to the over-refund for the period March 1, 2020, until rates went into effect from the UG-200568 rate case. The over refund was calculated based on the rate that would have been in effect from UG-190210 compared to the actual refunded amount. This results in an over-refund of $163,297.43. The third period is calculated based on the rate that would have been in place in Docket UG-200568 and what was actually refunded to customers through February 28, 2022. This results in an under-refund of $5,601.99. The net over-refund of $3,273,672.61 will be deferred and a collection will be proposed beginning November 1, 2022, coincident with the annual Purchase Gas Adjustment (PGA) filings.

The third component will be a reversal of the current deferred Protected ARAM component, which will be recorded in the proper current federal income tax account. As of February 28, 2022, the deferral balance plus gross up is currently a credit of $1,064,259.65. The current period amount will be treated as a period item in the test period of future rate cases consistent with all other rate base components.

The fourth component will take place at the conclusion of the current limited issue rate case in Docket UG-210755. Cascade will file an adjustment to rate Schedule 581 to set the amortization to match the 2020 test year using the accepted volumes and conversion factor included in the rate case docket. Shortly after the rate is established and the rate case compliance filing accepted, Cascade will make a clean-up filing to eliminate the rate schedule 581 credit rate and roll the amortization rate into base rates.

The 2020 Washington ARAM amount is $1,300,396. Using the company filed conversion factor in the current limited issue rate case, Docket UG-210755, the refund will be $1,722,241. Based on the per book revenue and the company volumes in Docket UG-210755, the change to schedule 581 will be an increase in revenue of $246,941 or 0.31 percent of margin revenue at the conclusion of the Company's current rate case.

On a going forward basis the amortization and the rate base reduction for the protected EDITs will be a component of the test year and treated consistently with all other components of rate base.

As previously discussed, the May 1, 2022, margin revenue impact of this tariff filing is an overall decrease of $5,958 or 0.01%. The average residential customer using 57 therms per month will see a bill decrease of $0.01 per month.

The Company declares that notice to distribution system transportation customers (Schedule 663) will be made in accordance with WAC 480-90-194. Cascade will issue a letter to customers beginning of April of 2022 and publish on its webpage the anticipated rate increase. The overall proposed change is a decrease to core customers but Schedule 633 will see a small increase. Cascade serves approximately 200,800 residential, 27,300 commercial, 490 industrial, and 197 distribution customers in the state of Washington.

If you have any questions, please contact Mike Parvinen at 509.528.9223 or myself at 208.377.6015

Sincerely,

Lori Blattner

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Attachments:
New-CNGC-Advice-No. W22-03-02-Leg Tariffs-03-24-2022.pdf
New-CNGC-Advice-No. W22-03-02-Tariffs-03-24-2022.pdf
New-CNGC-Advice-No. W22-03-02-GRC-Comparison-Summary-through-02-22-WP-03-24-2022.xlsx
New-CNGC-Advice-No. W22-03-02-Proctected-EDIT-2020-Impact-WP-03-24-2022.xlsx