BEFORE THE WASHINGTON

UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

CASCADE NATURAL GAS CO.,

Respondent.

DOCKET UG-240008

RESPONSE TESTIMONY OF JAMES A. LEYKO
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT

EXHIBIT JAL-1T

September 25, 2024

RESPONSE TESTIMONY OF JAMES A. LEYKO

DOCKET UG-240008

EXHIBIT JAL-1T

TABLE OF CONTENTS

LIST OF TABLES

RESPONSE TESTIMONY OF JAMES A. LEYKO

DOCKET UG-240008

EXHIBIT JAL-1T

EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. James A. Leyko. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

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

A. I am a Consultant in the field of public utility regulation with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel).

Q. Please describe your professional qualifications.

A. This information is included in my Exhibit JAL-2.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits:

- Exhibit JAL-2: Qualifications of James A. Leyko
- Exhibit JAL-3: Cascade's Response to UTC Staff Data Request No. 46
- Exhibit JAL-4: Cascade's Response to UTC Staff Data Request No. 29
- Exhibit JAL-5: Cascade's Response to UTC Staff Data Request No. 86
- Exhibit JAL-6: Plant Additions Adjustment
- Exhibit JAL-7: COVID-19 Rate Deferral Adjustment

Q. What is the purpose of your testimony?

A. My testimony will address Cascade Natural Gas Company's (Cascade or Company) claimed revenue deficiency and revenue requirement.

Q. Does the fact that you did not address every issue raised in Cascade's testimony mean that you agree with Cascade's testimony on those issues?

A. No. It merely reflects that I chose not to address all those issues in my testimony. It should not be read as an endorsement of, or agreement with, Cascade's position on such issues. In addition, other parties may offer additional reasonable downward adjustments to Cascade's revenue requirement.

Q. Please summarize your adjustments to Cascade's revenue requirement as presented in your testimony.

A. I recommend several adjustments to Cascade's claimed revenue deficiency. As outlined in Tables 1 and 2 below, I believe the Company's claimed revenue deficiency in rate year 1 of $48.864 million is overstated by at least $19.160 million. Cascade's proposed overall revenue increase effective March 1, 2025, of $48.864 million includes a $43.830 million increase in base rates, a $4.167 million increase for the COVID-19 Deferral and an approximate $867,000 increase for the Washington Utilities and Transportation Commission (Commission) Fee recovery.

Cascade's rate year 1 base rate revenue increase is overstated by at least $15.529 million as shown on Table 2, below. The Company's COVID-19 Deferral request is overstated by $3.631 million. Cascade proposes to recover its deferred COVID-19 costs via a new tariff schedule and not through base rates.

My adjustment to the Company's COVID-19 request lowers the overall revenue increase Cascade is proposing in this proceeding but not its proposed base rate increase.

Table 1 shows the impact of Public Counsel's adjustments on Cascade's overall claimed revenue deficiency and Table 2 shows the impact of Public Counsel's adjustments on Cascade's base rate revenue deficiency. Other parties may offer additional adjustments to Cascade's overall claimed revenue deficiency that are not included on my tables. I show an increase in Cascade's rate year 2 revenue deficiency because of plant additions that were originally forecasted for rate year 1 that are now expected to be in service in rate year 2.

TABLE 1

Revised Overall Revenue Change

Line	Description	Overall Revenue Change March 1, 2025	Adjustments	Revised Revenue Change March 1, 2025
		(1)	(2)	(3)
1	Base Rates	$ 43,829,673	$(15,529,345)	$ 28,300,328
2	COVID-19	4,167,572	(3,631,078)	536,494
3	UTC	867,005	-	867,005
4	Total	$ 48,864,251	$(19,160,423)	$ 29,703,828

TABLE 2

Base Rates Revenue Requirement Impact
($000)

Line	Description	Test Year (1)	Rate Year 1 (2)	Total For Rates Effective March 1, 2025 (3)	Total For Rates Effective March 1, 2026 (4)
1	Claimed Revenue Deficiency	$ 30,458	$ 13,371	$ 43,830	$ 11,669
2	Percent Increase	8.08%	3.53%	11.59%	2.75%
	Revenue Requirement Adjustments				
3	Capital Structure	$ (1,847)	$ (312)	$ (2,159)	$ (201)
4	Return on Equity	(4,457)	(752)	(5,209)	(486)
5	Rate of Return	$ (6,304)	$ (1,063)	$ (7,367)	$ (687)
6	EOP Rate Base	$ (4,604)	$ -	$ (4,604)	$ -
7	Plant Additions Adjustment	-	(3,329)	(3,329)	2,846
8	Misc. O&M Adjustment	-	(230)	(230)	(233)
9	Total Adjustments	$ (10,908)	$ (4,622)	$ (15,529)	$ 1,926
10	Adjusted Revenue Deficiency	$ 19,551	$ 8,750	$ 28,300	$ 13,595
11	Percent Increase	5.19%	2.31%	7.48%	3.20%

My colleague Michael P. Gorman will address Cascade's overall rate of return. I will address the other adjustments in Table 2 in the remainder of my testimony. My colleague Stefan de Villiers will address Cascade's line extension allowances, but the impact of his recommendations on Cascade's revenue requirement cannot yet be calculated based on available data.

II. END OF PERIOD (EOP) RATE BASE

Q. Please explain how Cascade calculated its rate base in this proceeding.

A. Cascade proposes to use an EOP rate base to set rates in this proceeding. Cascade proposes a two-year multiyear rate plan that uses the 12 months ended December 31, 2024, for rate year 1 (with rates effective March 1, 2025) and the 12 months ended December 31, 2025, for rate year 2 (with rates effective March 1, 2026).

Cascade witness Jacob A. Darrington includes in his revenue requirement exhibits EOP adjustments to restate rate base and revenues at the end of the test year instead of using an Average of Monthly Averages (AMA).[1] Mr. Darrington's adjustment includes increasing rate base to match the plant placed in service at the end of the test year (the 12 months ended December 31, 2023) along with offsets from the increase in accumulated depreciation at the end of the test year and the increase in revenues based on the number of customers at the end of the test year. This EOP treatment is carried into the Cascade's rate years.

Q. Why is Cascade proposing to use an EOP rate base?

A. Cascade witness Nicole A. Kivisto argues, at a high level, the Company's request is designed to address regulatory lag and improve the Company's credit ratings:

> As discussed in the rating agencies' analyses, however, another important piece of the rating is based on regulatory factors such as regulatory lag and weak regulatory outcomes. Cascade believes this multiyear plan provides an excellent opportunity for improvement on both fronts. A financially strong Company will be better positioned to meet the challenges and opportunities of the energy transition, while continuing to provide the safe and reliable service our existing customers deserve. Cascade believes this multiyear rate plan coupled with the end of period treatment for rate base outlined in the testimony of Lori A. Blattner, Exh. LAB-1T, will stabilize and improve the Company's credit ratings.[2]

As Ms. Kivisto notes, Cascade witness Lori A. Blattner supports the Company's request for EOP rate base treatment. Ms. Blattner states in Section V of her testimony that the Commission has established EOP treatment of rate base is appropriate under any of the following conditions:

- Abnormal plant growth
- Inflation and/or attrition

[1] Direct Testimony of Jacob A. Darrington, Exh. JAD-1T at 11:3–8.
[2] Direct Testimony of Nicole A. Kivisto, Exh. NAK-1T at 17:20–18:11.

- Mitigate regulatory lag
- Under-earning over a historical period

She cites the Commission's 1981 decision in *WUTC v. Washington Natural Gas* for the criteria in which EOP treatment may be appropriate.[3] Ms. Blattner further argues Cascade meets the Commission's criteria for the use of an EOP rate base.

> 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.[4]

Q. Has the Commission previously allowed Cascade to use an EOP rate base?

A. Yes. While the Commission has approved EOP adjustments in prior Cascade rate cases it is my understanding that the Commission's reasoning on whether or not it is appropriate to restate a utility's test year rate base has changed over time.

In Docket UE-130043 the Commission approved the use of an EOP rate base for Pacific Power & Light Company primarily on the basis of regulatory lag. "In this case, there is a need to address at least some of the impacts of regulatory lag on PacifiCorp. We determine that an appropriate response to address these impacts in this case is approval of PacifiCorp's use of EOP rate base."[5] However, a year and a half later in Pacific Power & Light Company's next rate case the Commission rejected Pacific Power & Light Company's proposal to continue using an EOP rate base.

> We reject Pacific Power's use of EOP rate base in this case, finding that the Company has failed to meet its burden of proof on this issue,

---

[3] Direct Testimony of Lori A. Blattner, Exh. LAB-1T at 20:4 fn. 9.
[4] *Id.* at 19:17–20:12.
[5] *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-130043, Order 05, ¶ 184 (Dec. 4, 2013).

> and require that the Company's compliance filing use the preferred AMA approach. We do not foreclose the possibility of approving EOP in a future case if there is an adequate showing that it promises the results we expect and is determined to be an appropriate regulatory mechanism under specific, well documented facts supporting its use.[6]

The pair of Orders highlight that the Commission has considered regulatory lag a reason to approve the use of an EOP rate base but that a utility is required to provide adequate support for the use of an EOP rate base. The Orders also state the Commission prefers the AMA approach.

Q. Has Cascade shown in this proceeding that there is sufficient regulatory lag to support an EOP rate base?

A. No. Ms. Kivisto cites regulatory lag as one of the factors requiring EOP treatment but Ms. Blattner has offered no evidence why regulatory lag would be worse now than in Cascade's last rate case where the Commission rejected Cascade's regulatory lag argument. The Commission concluded in Cascade's last rate case, "Although we agree that Cascade's needed plant growth is impacting its opportunity to earn its authorized rate of return, we are not persuaded by Cascade's arguments related to inflation and the regulatory lag due to the timing of when its investments are placed into service."[7] In this case, Ms. Blattner cites the reduction in regulatory lag as one of the benefits of a multiyear rate plan despite also arguing "regulatory lag is an ongoing issue for Cascade."[8] The use of a multiyear rate plan is a reason to avoid using an EOP rate base because of the

[6] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Company, a Division of PacifiCorp*, Docket UE-140762, Order 08, ¶ 151 (Mar. 25, 2015).
[7] *Id* ¶ 125.
[8] Blattner, Exh. LAB-1T at 19:1721:9.

benefits a multiyear plan brings in addressing regulatory lag. This is also Cascade's first multiyear rate plan since the Washington State Legislature updated RCW 80.28.425 which now requires (after January 1, 2022) every gas or electric utility general rate case to include a proposal for a multiyear rate plan. Now that multiyear rate plans are required the Commission can revisit whether the regulatory lag Cascade experiences still warrants EOP treatment of rate base.

Ms. Blattner argues the benefit of reduced regulatory lag is only realized using an EOP adjustment, "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."[9] This is incorrect and Cascade's use of multiyear rate plan helps alleviate concerns around regulatory lag regardless of whether or not an EOP adjustment is used. The multiyear rate plan significantly reduces regulatory lag because it allows Cascade's rates to be updated in March 2025 and March 2026 and this remains true without an EOP rate base.

Q. You mentioned the Commission has previously allowed Cascade to use an EOP rate base, can you summarize the Commission's recent decisions regarding this issue?

A. Yes. In Docket UG-200568 (Cascade's 2019 test year rate case) in Final Order 5 the Commission stated its use of an EOP has changed over time.

> Our decision in Washington Natural Gas, which describes various conditions under which EOP rate base may be justified, remains relevant 40 years later. Our use of EOP as a regulatory tool,

[9] *Id.* at 21:3–9.

> however, has evolved in recent years in response to changing markets and conditions.[10]

One change is the Commission appears to have deemphasized regulatory lag as a reason to use an EOP rate base as Cascade transited to a multiyear rate plan (compared to the Commission describing the use of an EOP rate base in the PacifiCorp case referenced above). Instead, the Commission put more emphasis on the Company's capital spending, Cascade under earning its authorized rate of return (ROR), and economic volatility as reasons to approve an EOP rate base in the Company's past two rate cases.

Importantly, the Commission reiterated in the Final Order of Docket UG-200568 that using an AMA rate base is the preferred approach, with an EOP rate base being considered an exception.[11] Therefore it is necessary for Cascade to justify the use of an EOP rate base in each case where it is proposed regardless of recent Commission decisions. In the Final Order of Docket UG-200568 Order the Commission approved the use of an EOP rate base due to Cascade's ongoing capital investment program, historical under earning, and economic volatility.

> In this case, we agree that Cascade has demonstrated the need for EOP treatment, in part, due to its ongoing capital investment program and its demonstrated historical underearning. We discuss the Company's capital investments in greater detail below, in section II.B.6. The Commission recognizes that Cascade's capital investment spending has impacted the Company's earnings to some degree, and further recognizes that some of the under earning is due to factors outside of the Company's control.[12]

---

[10] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Co.*, Docket UG-200568, Order 5: Final Order, ¶ 165 (May 18, 2021).
[11] *Id.* ¶ 164.
[12] *Id.* ¶ 167.

> ...
>
> The evidence also establishes that Cascade has failed to achieve its authorized ROR for several years. While the Commission is not convinced that the Company's underearning is completely outside of its control, the evidence is clear that EOP treatment is warranted.[13]
>
> ...
>
> Finally, we observe that economic volatility may itself weigh in favor of allowing an EOP adjustment to rate base. As we noted in Washington Natural Gas, "there is sizeable and well-recognized authority that in an abnormal and less stable economic climate year-end rate base may be more appropriate and should be used to balance out the financial problems caused by abnormal and uncertain economy." As Company witness Bulkley notes, 2020 was a time of "extreme" market volatility and unprecedented monetary policy measures. These economic conditions weigh in favor of EOP treatment, much as heightened inflation weighed in favor of EOP treatment for utilities in the early 1980s.
>
> We therefore find that EOP rate base is warranted under the circumstances. Without EOP rate base treatment, Cascade will likely continue to under-recover in the rate effective period due to the extreme economic volatility caused by the COVID-19 pandemic, which remains ongoing. Although Cascade has not established that its history of under-earning is entirely due to factors outside of its control, we find it appropriate to allow an EOP adjustment to rate base in light of the particular facts of this case.[14]

I believe the Commission should consider whether or not EOP treatment of the Company's rate base is still appropriate given economic volatility has lessened considerably since Cascade's rate case in Docket UG-200568. In that case the Commission concluded, "Finally, we observe that economic volatility may itself weigh in favor of allowing an EOP adjustment to rate base" while citing the COVID-19 pandemic.

---

[13] *Id.* ¶ 168.
[14] *Id.* ¶¶ 169, 170.

In the Final Order of Docket UG-210755 (Cascade's last general rate case) the Commission continued to allow Cascade to use an EOP rate base due to several challenges facing the Company. Again the Commission cited the COVID-19 pandemic as one of the contributing factors.

> We find it appropriate to allow an EOP adjustment to rate base in light of the particular facts of this case. Without EOP rate base treatment, Cascade has shown it likely will continue to under-recover in the rate-effective period due to the economic volatility caused by the COVID-19 pandemic, which remains ongoing. Cascade's improving ability to earn its authorized ROR even with the Company's ongoing capital investments is evidence that EOP valuation is working.[15]

The economic volatility associated with COVID-19 has lessened considerably since the Company's last two rate cases where the Commission cited it as a reason for EOP rate base treatment. As noted below in my testimony, Cascade is now seeking to recover the COVID-19 costs that were previously deferred.

In addition to economic volatility, other reasons the Commission approved EOP treatment in Cascade's last rate case were capital investment and under earnings.

> In this case, we agree that Cascade has demonstrated the need for EOP treatment due to its ongoing capital investment program and it's demonstrated historical under earning. Public Counsel's singular focus on the impact of the EOP adjustment on total revenue requirement is misplaced. We find unpersuasive Public Counsel's arguments, which fail to refute the ample evidence Cascade provided to justify the use of EOP treatment.[16]
>
> Both Company testimony and Cascade's updated Commission Basis Reports (CBRs) show a pattern of under earning from 2015 onwards, as shown in Table 7, above. Similarly, Cascade's 2021 CBR shows that the Company earned a 6.14 percent ROR in 2021

---

[15] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Co.*, Docket UG-210755, Order 9: Final Order, ¶ 134 (Aug. 23, 2022) (hereinafter *Cascade 2021 GRC*).
[16] *Cascade 2021 GRC* ¶ 132.

> when its authorized ROR was 6.95 percent, a difference of 0.81 percent.[17]

The Commission reasoning in Cascade's last rate case is similar to its reasoning in Cascade's Docket UG-200568 rate case.

Q. Given the Commission's decision in Cascade's prior two rate cases, why do you recommend the Commission not approve an EOP adjustment in this case?

A. For several reasons. First, the multiyear rate plan allows Cascade to support its capital investment program regardless of whether EOP treatment of rate base is used. The use of a multiyear rate plan already reduces regulatory lag. The plan allows the Company to update rates each year in order to accommodate rate base growth during the multiyear rate plan. I believe the Commission should consider options which minimize the impact of Cascade's capital investment program on customers' rates.

Second, an EOP forecasted test year is not reasonable for setting rates simply because it increases the use of forecasts in setting cost of service, which adds additional uncertainty to this rate case. If Cascade is over-optimistic in its projections of plant in service toward the end of the year, it may be overstating end-of-year rate base. While Cascade proposes a review process, it only applies to plant in-service and customers would not be made whole if a refund is warranted until the next multiyear rate plan or later.[18] Later in my testimony I support an adjustment to Cascade's forecasted plant additions to reflect the Company's

---

[17] *Id.* ¶ 133.
[18] Blattner, Exh. LAB-1T at 17:1–19:6.

updated forecast that shows over $30 million of plant being moved from rate year 1 of the multiyear rate plan to rate year 2.

Third, Ms. Blattner offers no evidence to suggest Cascade will continue to under earn its ROR during the multiyear rate plan. Cascade's argument is purely looking at historical performance. The Commission addressed this issue in Docket UE-140762. The Commission found that historical under earnings alone is not sufficient evidence to support the use of an EOP rate base.

> Moreover, the fact that the Company failed in the past to earn its authorized return cannot justify use of EOP absent a showing that, due to factors beyond the Company's control, the Commission can expect this condition to continue into the future. There is no such evidence in the record of this case.[19]

Cascade has not provided evidence that it is likely to continue under earning its authorized ROR due to factors outside of its control. Ms. Blattner addresses Cascade's under earnings in her direct testimony (her Table 3 is Cascade's Results of Operations).

> 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.

The fact that Cascade under earned its ROR in the past is not sufficient reason on its own to justify EOP treatment of rate base, especially when there are reasons to believe the Company is under less cost pressures than it was in the last rate case.

[19] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Company*, Docket UE-140762, Order 08, ¶ 146 (Mar. 25, 2015).

In addition, Cascade continued to under earn its ROR despite EOP treatment over the last two rate cases.

There is reason to believe that some of the economic volatility Cascade faced in recent years and that likely contributed to the Company not earning its authorized ROR in 2022 and 2023 is no longer applicable. As mentioned above, one of the reasons the Commission approved the EOP treatment was the COVID-19 pandemic which is no longer the same concern as it was in the Company's last two rate cases. Inflation has also decreased significantly from where it was in 2021 and 2022, as shown below.

TABLE 3

Consumer Price Index

Line	Quarter	2020 (1)	2021 (2)	2022 (3)	2023 (4)	2024 (5)	2025 (6)
1	Q1	1.0%	4.1%	9.2%	3.8%	3.8%	2.4%
2	Q2	-3.1%	8.2%	10.0%	3.0%	2.8%	2.3%
3	Q3	4.8%	6.6%	5.3%	3.4%	2.3%	2.3%
4	Q4	2.2%	8.8%	4.0%	2.7%	2.5%	2.3%
5	Average	1.2%	6.9%	7.1%	3.2%	2.9%	2.3%

Sources:
Blue Chip Financial Forecasts, January 1, 2022, July 1, 2022, June 30, 2023, and August 1, 2024.

With annual inflation during the multiyear rate plan forecasted to be at a more manageable level than it has been the past few years the Company is in a better position to control costs.

Finally, the decision on whether to continue EOP treatment of rate base should consider the rate impact on customers. While Ms. Kivisto cites credit agency reports as support for continuing the EOP treatment of rate base, she ignores that credit analysts are increasingly concerned with rate affordability. My colleague Mr. Gorman addresses rate affordability in his discussion of the Utility Industry's Credit Outlook in his direct testimony.

Q. What do you recommend?

A. I recommend the Commission reject Mr. Darrington's EOP adjustments for the reasons described above. The revenue requirement impact of this adjustment is $4,603,647 in the test year, per Darrington, Exhibit JAD-7. This adjustment also removes the increase in revenues from using the end of year number of customers and treats both costs and revenues the same.

III. UPDATED PLANT ADDITIONS FORECAST

Q. Has the Company provided an updated forecast of plant additions for the multiyear rate plan?

A. Yes. Cascade provided an updated forecast of plant additions in discovery in response to UTC Staff (Staff) Data Request No. 46.[20] Attachment A to the data response includes a "MYRP Plant Update" that outlines changes in the expected in-service date of the plan additions. The attachment shows that the forecasted plant additions decreased for rate year 1 from the $140,193,438 in the initial filing to $108,355,956, or a decrease of $31,837,482. The plant additions for rate year 2 increased from $107,258,633 to $137,591,598, or an increase of $30,332,964, given projects were moved from rate year 1 to rate year 2. The attachment also shows that $5,827,349 of plant additions were removed from the multiyear rate plan (being delayed from 2025 into 2026).

---

[20] James A. Leyko, Exh. JAL-3 (Cascade's Response to UTC Staff Data Request No. 46, with Attachment A).

Q. Are you recommending any other changes to Cascade's plant additions forecast.

A. Yes. As part of its plant additions adjustment the Company uses a 2.9 percent estimate for the amount of plant additions that result in a retirement. Cascade addressed the 2.9 percent factor in discovery.

> It is difficult to forecast known retirements. As such, at the time of implementation of its fixed asset software, PowerPlan, Cascade Natural Gas Corporation ("Cascade") established a percentage of plant additions that result in a retirement. At that time Cascade determined 2.9% to be an appropriate estimate to use when forecasting retirements as a percentage of forecasted plant additions. Cascade has been using the same percentage for all retirement forecasts since implementation of PowerPlan.[21]

However, in response to Staff Data Request No. 86 the Company provided the actual plant retirements as a percentage of plant additions for 2014–2023.[22] The response shows that the actual plant retirement rate is well above the 2.9 percent used in Cascade's plant additions adjustment. Absent a reason to use Cascade's 2.9 percent estimate, I recommend the Commission use a rate based on the actual data shown in Cascade's response to Staff Data Request No.86.

Q. What is the revenue requirement impact of using the update plant additions forecast and an updated estimated retirements rates?

A. The estimated revenue requirement impact is calculated on Exhibit JAL-6. First, I updated the plant additions to reflect the new forecast. Second, I used an 8.0 percent actual plant retirement rate. The Company's data response shows the rate varies from 5.06 percent (2017) to 18.72 percent (2019) and the 2014–2023

---

[21] Leyko, Exh. JAL-4 (Cascade response to UTC Staff Data Request No. 29).
[22] Leyko, Exh JAL-5 (Cascade's Response to UTC Staff Data Request No. 86).

average is 10.94 percent. The actual plant retirement rate was approximately 8.0 percent in 2022 and 2023, therefore I used 8.0 percent for my adjustment. Finally, I calculated the change in depreciation expense and accumulated depreciation due to the delayed projects.

The updated plant additions forecast lowers Cascade's revenue requirement by approximately $3.3 million in rate year 1.

Q. Do you have any other thoughts on Cascade's plant additions forecast?

A. Yes. Because Cascade moved projects from rate year 1 to rate year 2, the updated plant additions forecast increases the Company's revenue requirement in rate year 2 by approximately $2.8 million. The primary driver of the increase in rate year 2 is the Burlington Transmission Reinforcement project, which has a total cost of $29.7 million and was originally forecasted for rate year 1 (2024). However, just as projects were moved from rate year 1 to rate year 2, it is possible more projects will eventually be delayed out of the multiyear rate plan or the Burlington Transmission Reinforcement project could face further delays. I reserve the right to update my plant additions forecast if there is evidence to suggest some of the projects currently planned for 2025 will not be placed in service during the multiyear rate plan. Other parties may also propose reasonable adjustments to Cascade's plant additions forecast.

IV. MISC. O&M EXPENSE ADJUSTMENT

Q. Please describe Cascade's miscellaneous O&M adjustment.

A. Cascade witness Darrington supports a 2024 and 2025 "Pro Forma Misc. O&M Expense Adjustment" in columns P-9 and PR-10 of Darrington, Exhibit JAD-7. The 2024 adjustment increases Cascade's revenue requirement by $229,704 in the first year of the multiyear rate plan and by $233,198 in the second year. Mr. Darrington states the adjustments estimate the forecasted increase to O&M expense based on a four-year average of the change in O&M costs after removing any O&M expenses related to the restating and pro forma adjustments made in this case.[23] The four-year average change in O&M is 1.52 percent per year. This is the rate Mr. Darrington uses for his increase in O&M for year 1 and year 2 of the multiyear rate plan.

Q. Do you have any concerns with Cascade's miscellaneous O&M adjustment?

A. Yes. The 1.52 percent increase in O&M is almost entirely driven by a large increase in O&M in 2022. In the other three years of Cascade's four-year average the adjusted O&M costs either decreased (2020 and 2023) or increased less than 1 percent (2021). Cascade's adjusted O&M costs increased by 15.42 percent in 2022. If the increase in 2022 were excluded as an outlier then the 2020, 2021, and 2023 average would be a 3.11 percent decrease in O&M costs per year. This rate is similar to the 2.70 percent decrease in O&M Cascade experienced in 2023. The evidence shows that Cascade has largely been able to effectively manage the growth in its miscellaneous O&M costs after accounting for cost increases that are addressed elsewhere in this rate case such as wage increases, 2022 is an exception.

Q. What do you recommend?

A. Given Cascade's proposed increase during the multiyear rate plan is driven almost exclusively by an O&M increase in 2022 and given Cascade saw a decrease in

[23] Darrington, Exh. JAD-1T at 15:6–19:13.

these O&M costs in 2023, I recommend the Commission reject Cascade's miscellaneous O&M adjustment and keep these costs level during the multiyear rate plan. Keeping costs level should be considered a conservative adjustment given these costs decreased in 2023. This adjustment lowers Cascade's claimed revenue deficiency by $229,704 in year 1 and $233,198 in year 2, as shown on columns P-9 and PR-10 of Exhibit JAD-7.

V. COVID-19 COSTS AND BENEFITS

Q. What is Cascade's proposal regarding the deferred costs related to COVID-19?

A. First, Cascade includes a restating adjustment that modifies the test year to include COVID-19 costs and benefits that were deferred in 2023, effectively including these costs in rates effective March 1, 2025, and ending the Company's deferral.[24] Second, Cascade proposes to recover the COVID-19 costs that were deferred through February 28, 2025, through a new tariff schedule. The Company estimates it will have a deferred balance of $7,924,722 by February 28, 2025.[25] Cascade proposes to recover these costs over two years.

Q. Is two years the appropriate timeframe to recover these costs?

A. No. Cascade received approval from the Commission to defer these costs in Docket UG-200479. The Commission Order in that docket allowed Cascade to defer these costs from the date of its original petition, or May 27, 2020.[26] This means, by February 28, 2025, the Company will have deferred over four and a

[24] Darrington, Exh. JAD-1T at 13:1–22.
[25] Direct Test of Zachary L. Harris, Exh. ZLH-1T at 9:17–10:16.
[26] *In re of Cascade Natural Gas Co Order Approving Deferral of Costs Associated with the COVID-19 Public Health Emergency*, Docket UG-200479, Order 1, ¶ 28 (Dec 10, 2024).

half years' worth of COVID-19 costs and benefits. Despite this, the Company proposes to recover these costs over only two years.

I believe the Commission should consider directing the Company to use a longer recovery period given the extraordinary and non-recurring nature of these costs. The pandemic is not expected to be repeated and is therefore a once in a lifetime non-recurring event. The rate impact of COVID-19 should be mitigated as much as possible in this case. In addition, there is no reason for the Company to recover these costs over a much shorter time period than the time period over which the costs were incurred.

Q. What recovery period do you recommend?

A. I recommend the recovery period be increased to four years. Four years is much closer to the time period over which the costs accumulated and it aligns with the cadence of Cascade's multiyear rate plans. Instead of recovering these costs over one multiyear rate plan the Company will recover these costs over two multiyear rate plans. Importantly, I am not recommending the Company not recover these costs. Rather, I am recommending the Commission extend the time period in which the Company's proposed new tariff schedule would be in effect.

Q. What is the impact of a longer recovery period for the COVID-19 costs?

A. Extending the recovery period lowers the annual amount recovered from customers from $4,167,572 to $2,083,786. Since these costs are not included in base rates there is no impact on Cascade's claimed revenue deficiency in this proceeding but it would lower Cascade overall revenue increase by $2,083,786. Cascade witness Zachary L. Harris develops rates for the new tariff schedule on

Exhibit ZLH-2. My table below updates the rates for my proposed recovery period.

TABLE 4

COVID-19 Deferral Rate Impact

			Allocated Amount			
			Company Proposal		Adjusted	
Line	Rate Class	Revenue Allocation	2-Years	Rate	4-Years	Rate
		(1)	(2)	(3)	(4)	(5)
1	503	83.9%	$ 3,495,111	$ 0.02644	$ 1,747,556	$ 0.01322
2	504	13.7%	570,994	0.00611	285,497	0.00306
3	505	1.8%	74,031	0.00444	37,016	0.00222
4	511	0.2%	9,082	0.00054	4,541	0.00027
5	663	0.4%	17,713	0.00002	8,857	0.00001
6	570	0.0%	640	0.00031	320	0.00015
7	Total	100.0%	$ 4,167,572		$ 2,083,786	
8	**Difference**				**$(2,083,786)**	

Source:
Exh. ZLH-2.

Q. Are you proposing any other adjustments to the recovery of COVID-19 costs?

A. Yes. Cascade's COVID-19 regulatory asset includes late payment fees and reconnect fees. These fees should not be included or recovered from customers. Although I am not an attorney, it is my understanding that collection of these fees was prohibited by law and, therefore, collecting these fees now contradicts that prohibition.[27] Table 5, below, shows the COVID-19 deferral rate impact after

[27] Joint Response of Public Counsel & The Energy Project, *In re of Cascade Natural Gas Co Order Approving Deferral of Costs Associated with the COVID-19 Public Health Emergency*, Docket UG-200479 (Nov. 19, 2020).

removing the $5,884,412 of late payment fees and reconnect fees. Support for Table 5 is provided as Exhibit JAL-7.

TABLE 5

Public Counsel Proposed COVID-19 Deferral Rate Impact

			Allocated Amount			
		Revenue	Company Proposal		Adjusted	
Line	Rate Class	Allocation	2-Years	Rate	4-Years	Rate
		(1)	(2)	(3)	(4)	(5)
1	503	83.9%	$ 3,495,111	$ 0.02644	$ 449,928	$ 0.00340
2	504	13.7%	570,994	0.00611	73,504	0.00079
3	505	1.8%	74,031	0.00444	9,530	0.00057
4	511	0.2%	9,082	0.00054	1,169	0.00007
5	663	0.4%	17,713	0.00002	2,280	0.00000
6	570	0.0%	640	0.00031	82	0.00004
7	Total	100.0%	$ 4,167,572		$ 536,494	
8	**Difference**				**$(3,631,078)**	

Source:
Exhibit JAL-5.

Q. Does this conclude your response testimony?

A. Yes, it does.