PREPARED TESTIMONY OF F. JAY CUMMINGS

(Safety and Reliability Infrastructure Adjustment Mechanism)

Q. Please state your name and business address.

A. My name is F. Jay Cummings. My business address is 3625 North Hall Street, Suite 750, Dallas, Texas 75219.

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

A. I am a Senior Economist with Ruhter & Reynolds, Inc., Consulting Economists.

Q. Please summarize your education and experience.

A. I have a B.A. degree with a major in economics from Colgate University and a Ph.D. in economics from the University of Virginia. For the past four years, I have provided regulatory support services to the energy industry, primarily the natural gas sector, as a Senior Economist with Ruhter & Reynolds, Inc. (September 2005 - present), an Executive Consultant with R. J. Covington Consulting, LLC (March 2003 - August 2005) and as a Principal with Navigant Consulting, Inc. (October 2001 - February 2003).

Prior to joining Navigant Consulting, I was employed by Southern Union Company. I joined Southern Union in 1991 as Southern Union Gas' Director of Rates and Regulatory Affairs and became Vice President later that year. When my regulatory responsibilities for Southern Union expanded to include its Missouri properties in 1994, I became Vice President, Pricing and Economic Analysis, a position I held until leaving Southern Union in 2001. Prior to joining Southern Union, I was employed by the Arizona Corporation Commission, the state's utility regulatory agency, in the Utilities Division as Chief, Economics and Rates Section (1985); Chief, Economics and Research Section (1985 - 1988); and Assistant Director (1988 - 1991). From 1973 through 1985, I was on the economics faculties of George Mason University (1973 - 1975) and the University of Texas at Dallas (1975 - 1985). My teaching and research focused on applied microeconomic analyses, which resulted in professional journal publications and conference and seminar presentations. I have submitted testimony in regulatory proceedings in Arizona, Arkansas, Missouri, Oklahoma, and Texas.

Q. What is the purpose of your testimony?

A. I have been retained by Cascade Natural Gas Corporation ("Company" or "Cascade") to explain and support the Safety and Reliability Infrastructure Adjustment Mechanism ("SRIAM"). The SRIAM is included as Rule 21 with the proposed tariffs included as an exhibit to the Prepared Testimony of Jon T. Stoltz.

Q. Please provide a brief description of the SRIAM.

A, The SRIAM provides for annual recognition in rates of the cost of service associated with eligible investments without the need for time consuming and costly general rate cases. Eligible investments are infrastructure expenditures made for safety or reliability purposes, as well as facility relocations required by public works projects. Specifically, eligible investments consist of: (a) mains, service lines, and related facilities that replace existing facilities that have worn out or are in deteriorated condition; (b) facility relocations required due to highway and other public works projects by or on behalf of any government agency provided that the costs related to such projects have not been completely reimbursed to the Company; and (c) additional mains, gate station facility expansions, compressed natural gas and liquefied natural gas equipment or any other infrastructure improvements designed to improve the reliability and/or capacity of the distribution system during peak weather events.

Q. Why do you recommend that the SRIAM be implemented at this time?

A. Cascade's projected expenditures on investments covered by the SRIAM over the next five years are significant and substantially larger than amounts spent in past years. Absent the SRIAM, Cascade's only choice will be to file frequent and costly general rate cases to recover the cost of service related to these investments. Through the SRIAM, regulatory lag naturally inherent in the alternative general rate case process is reduced, providing a source of internally-generated cash to fund these continuing investment requirements.

Q. Please provide information on historical and projected spending on investments that will prospectively be included in the SRIAM.

A. The following table provides a five year history of expenditures, in thousand dollars, on these types of investments broken down by investment type, as well as budgeted expenditures for fiscal year 2006 and projections for the next five fiscal years:

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Annual Washington Expenditures

(in thousands)

Fiscal Year	Reinforcements	Relocations	Replacements	Total
2000	-	$ 563	-	$ 563
2001	$ 638	-	-	$ 638
2002	$ 739	-	-	$ 739
2003	$ 1,860	$ 142	-	$ 2,002
2004	$ 1,521	$ 182	-	$ 1,703
2005	$ 3,053	$ 676	$ 62	$ 3,791
2006 Budget	$ 250	$ 595	$ 275	$ 1,120
2007	$ 3,484	$ 375	$ 769	$ 4,628
2008	$ 4,474	$ 375	$ 1,105	$ 5,954
2009	$ 3,856	$ 375	$ 4,635	$ 8,866
2010	$ 1,373	$ 375	$ 4,135	$ 5,883
2011	$ 6,137	$ 375	$ 5,180	$11,692

During the first half of the historical period, expenditures averaged approximately $647 thousand per year. Over the most recent three fiscal years, average annual expenditures on these investments grew to almost $2,500 thousand per year, presumably contributing to the need for this rate case. While the 2006 budget for these types of investments is lower than recent levels of spending, projections for the next five years show required expenditures in each of these years are expected to be well above those amounts spent in any prior year, averaging more than $7,400 thousand per year. With these sizable investment requirements, the Company will be unlikely able to defer the need for frequent rate cases to enable the cost of these financial commitments to be included in rates unless the SRIAM is implemented.

Q. Is the type of adjustment mechanism that you are recommending unique in the natural gas industry?

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A. No. In Texas, local distribution companies are permitted to adjust rates annually to reflect the cost of service associated with changes in the level of capital invested to provide utility service from one year to the next. In Missouri, local distribution companies are permitted to adjust rates up to twice a year to capture the cost of service associated with investments related to federal and state safety requirements and governmentally-mandated facility relocations. The SRIAM is structured like the mechanisms permitted in these two states. Its coverage is substantially narrower than in Texas in excluding many investments such as those specifically required to connect new customers but is somewhat broader than in Missouri in including investments needed for reliability purposes that are not explicitly mandated by a governmental entity.

Q. Please explain how the amount of revenue to be collected through the SRIAM will be calculated.

A. As indicated in Rule 21, required SRIAM revenue and the resulting rate adjustments applicable to all firm distribution rate schedules will be calculated on an annual basis. On December 1 each year, the Company will make a filing with the Washington Utilities and Transportation Commission ("Commission") to adjust rates based on eligible investments in service as of the end of the most recent fiscal year, ended September 30 of the current year. The revenue to be collected through the SRIAM rate adjustment reflects the cost of service associated with eligible investment balances at the end of the fiscal year, or the sum of the return, property taxes, depreciation expense, and revenue-related taxes related to these investments.

The return component applies the cost of capital inclusive of income taxes from this rate case to the applicable gross plant balances less accumulated depreciation and accumulated deferred income taxes at the end of the fiscal year. Property tax expense is based on the effective property tax rate used to set rates in this proceeding, and revenue-related taxes are

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based on the effective tax rate in this rate case. Depreciation expense is calculated using depreciation rates for applicable plant accounts that are used in calculating the Company's revenue requirement in this case. In addition to these cost of service elements, the SRIAM revenue to be collected includes a reconciliation component, or the difference between actual collections resulting from assessment of the SRIAM rates and prior period SRIAM revenues.

Q. Please explain how the SRIAM revenue will be collected from customers.

A. The required SRIAM revenue will be distributed to each applicable rate schedule based on the relative proportion of each schedule's base margin revenues that are used to set rates in this rate case. The revenue allocated to each schedule will be collected on a per customer basis by dividing the schedule's allocated SRIAM revenue by the number of customers anticipated to be served on the schedule during the twelve months beginning the following February 1, the date when the SRIAM surcharges become effective.

Collection of the SRIAM revenue through a per customer charge is the approach used by local distribution companies for similar mechanisms in Missouri and Texas. The alternative – collecting SRIAM revenues volumetrically rather than on a per-customer basis – would require continuing, subsequent year rate adjustments to reconcile overcollections and undercollections resulting from weather-induced volume variations.

Q. Why do you propose a 60-day period between the filing and effective date of SRIAM rate changes?

A. This period will provide Commission staff time to review the calculations and supporting information provided by the Company in its December 1 filing. This information will include descriptions of the cost of and need for major projects included in the SRIAM as indicated in proposed Rule 21. The Company also intends to provide additional detail on SRIAM projects that are expected to be undertaken as part of its annual budget submission pursuant to Chapter 480-140 WAC. By providing information on upcoming SRIAM investments in these submissions, the staff will have an opportunity to review the Company's investment plans more than a year in advance of resulting SRIAM rate changes. In addition, while I understand that reinforcement investments have not been a focus of the biennial integrated resource planning process, they are included in the plans and could be reviewed more thoroughly during the resource plan review process. The 60-day period between a SRIAM filing and the effective date of a rate change also enables time for the Company to satisfy the rate change customer notice requirements of WAC 490-90-194.

Q. Do you have any comments on other provisions of proposed Rule 21?

A. Yes. Rule 21 requires that the Company file a general rate case within five years after the effective rate of the first SRIAM surcharge. In this subsequent rate case, the Company will include the investments reflected in prior year SRIAM surcharge calculations in rate base, and the then-current SRIAM rates will be reset to zero. In this rate case, the Commission can review the reasonableness of expenditures on and the prudence of these investments being placed in rate base for the first time. In addition, the return, property tax, depreciation, and revenue-related tax factors will be revised, as necessary, for prospective SRIAM calculations.

Q. Does this conclude your prepared testimony?

A. Yes.

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