

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-260127

**CASCADE NATURAL GAS CORPORATION
DIRECT TESTIMONY OF JACOB A. DARRINGTON**

May 29, 2026

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<u>Exhibit</u>	<u>Description</u>
Exh. JAD-2	Summary of Adjusted Test Year Revenues by Rate Schedule
Exh. JAD-3	Test Year Results of Operations Summary Sheet
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Exh. JAD-8	State Allocation Factors

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Jacob A. Darrington and my business address is 555 South Cole Road,
4 Boise, Idaho 83709.

5 **Q. By whom are you employed, for how long, and in what capacity?**

6 A. I am a Manager of Regulatory Affairs for Cascade Natural Gas Corporation (“Cascade”
7 or “Company”) and Intermountain Gas Company (“Intermountain”), both wholly-
8 owned subsidiaries of MDU Resources Group, Inc. (“MDU Resources”). In this
9 capacity, I am primarily responsible for the purchased gas adjustment filings and the
10 development of the revenue requirement related to general rate case filings for the
11 Washington, Oregon, and Idaho jurisdictions of Cascade and Intermountain.

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

13 A. I graduated from Boise State University in May 2011 with a Bachelor of Arts Degree
14 in Accounting-Finance. In January 2012, I began work at Deloitte Tax as a Tax
15 Consultant. I obtained my CPA license in the summer of 2013 and continue to keep my
16 CPA license active in the state of Idaho. In April 2015, I took a position with
17 Intermountain as a Regulatory Analyst with primary responsibilities related to the
18 preparation and filing of the annual purchased gas cost adjustment filing as well as the
19 development of revenue requirement related to general rate case filings. In July 2015,
20 I attended the Regulatory Rate School in Chicago sponsored by the American Gas
21 Association. In 2019, I was promoted to Manager in the Intermountain Regulatory
22 Affairs department, and in 2022, I took on additional responsibilities for Cascade’s
23 Washington and Oregon jurisdictions. I have previously sponsored testimony and

1 exhibits before the Washington Utilities and Transportation Commission
2 (“Commission”) as well as the Idaho Public Utilities Commission.

3 **II. SCOPE AND SUMMARY OF TESTIMONY**

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

5 A. My testimony will address four main areas regarding the development of the
6 Company’s proposed revenue requirement. First, I will present an overview of the
7 proposed revenue requirement for each rate effective year. Second, I will discuss the
8 Company’s Summary of Adjusted Test Year Revenues by Rate Schedule and the
9 adjustments contained in that exhibit, Exhibit JAD-2. Third, I will discuss the
10 Company’s restating (Section V) and pro forma (Section VI) adjustments to the test
11 year operating revenues, expenses and rate base. Fourth, I will discuss the adjustments
12 to the first and second provisional years.

13 **Q. Are you sponsoring any exhibits in this proceeding?**

14 A. Yes, I am sponsoring the following exhibits:

- 15 • Exh. JAD-2 Summary of Adjusted Test Year Revenues by Rate Schedule
- 16 • Exh. JAD-3 Test Year Results of Operations Summary Sheet
- 17 • Exh. JAD-4 Results of Multi-Year Rate Plan Summary Sheet
- 18 • Exh. JAD-5 Multi-Year Rate Plan Revenue Requirement Calculation
- 19 • Exh. JAD-6 Conversion Factor for Revenue Sensitive Costs
- 20 • Exh. JAD-7 Summary of Adjustments
- 21 • Exh. JAD-8 State Allocation Factors

1 **III. PROPOSED REVENUE REQUIREMENT**

2 **Q. Please explain the test year, provisional years, and rate effective dates used in this**
3 **case.**

4 A. Cascade has selected the 12 months ending on December 31, 2025, as the Test Year in
5 this case.¹ Additionally, Cascade is proposing to include two provisional years for the
6 periods ending December 31, 2026, and December 31, 2027. Table 1 below outlines
7 the rate effective dates for each of these periods.

8 **Table 1 – Rate Effective Dates for Test Year and Provisional Years**

	Test Year ²	Provisional Year 1 ³	Provisional Year 2 ⁴
Period	1/1/2025- 12/31/2025	1/1/2026- 12/31/2026	1/1/2027- 12/31/2027
Effective Date	May 1, 2027	May 1, 2027	May 1, 2028

9 **Q. Please summarize the Company’s proposed revenue requirement increase for**
10 **each rate effective date for the Washington jurisdiction.**

11 A. The Company is seeking to increase base rate revenues for each rate effective date by
12 the amounts listed in Table 2 below.

¹ This test year meets the requirements of Order 09 in Docket UG-210755, which requires future test years to be “no older than six months from the date initial testimony is filed.” *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket UG-210755, Final Order 09 Approving and Adopting Settlement Agreement Subject to Conditions ¶ 113 (Aug. 23, 2022).

² Includes pro forma adjustments related to the 2026 provisional year.

³ Only includes 2026 provisional plant adjustments.

⁴ Includes 2027 pro forma and provisional plant adjustments.

1

Table 2 – Base Rate Revenue Increases Requested

	Test Year (Rates Effective May 1, 2027)	Provisional Plant Year 1 (Rates Effective May 1, 2027)	Total for Rates Effective May 1, 2027	Pro Forma Provisional Year 2 (Rates Effective May 1, 2028)	Provisional Plant Year 2 (Rates Effective May 1, 2028)	Total for Rates Effective May 1, 2028
Revenue Requirement	\$17,657,958	\$7,441,443	\$25,099,401	\$2,395,455	\$15,676,606	\$18,072,061
Base Revenue Increase	9.82%	4.13%	13.94%	1.17%	7.63%	8.80%
Overall Revenue Increase	3.43%	1.45%	4.87%	0.44%	2.90%	3.35%

2

Exhibit JAD-5 shows the calculation of the proposed deficiency in operating

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revenue for each rate effective date, with amounts related to provisional plant

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separately stated. First, the Company’s adjusted rate base is multiplied by the proposed

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rate of return (“ROR”) to calculate the required return. The proposed ROR is discussed

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and supported by the Direct Testimony of Tammy J. Nygard (Exhibit TJN-1T). Second,

7

the adjusted net income is subtracted from the required return to calculate the required

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net income. The final step is to convert the Company’s required net income into its

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revenue requirement by dividing the required net income by the Company’s conversion

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factor found on column (B), line 19 of Exhibit JAD-6.

11

Q. Please explain the conversion factor.

12

A. Exhibit JAD-6 shows the calculation of the conversion factor, which is applied to the

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required net income increase to produce the revenue requirement. The conversion

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factor—which is sometimes called a “gross-up” factor—is a standard adjustment that

15

takes into account revenue-sensitive items that change as revenue changes, such as

1 Commission regulatory fees, Washington Business and Operating tax, and federal
2 income taxes. As shown on column (B), line 19 of Exhibit JAD-6, the conversion factor
3 is calculated to be 0.75354. This is the same methodology used to calculate the
4 conversion factor in Cascade's last rate case, Docket UG-240008.⁵

5 **Q. What would Cascade's ROR be for the Test Year absent the proposed revenue**
6 **requirement increase?**

7 A. Cascade's unadjusted ROR for 2025 was 5.62 percent as seen on Exhibit JAD-3,
8 column (B), line 33. After accounting for the restating and pro forma adjustments to be
9 discussed later in this testimony, the ROR increases to 6.20 percent as shown on
10 column (F), line 33. Both of these amounts are below the Company's authorized ROR
11 of 7.185 percent.⁶

12 **Q. Is the Company providing the derivation of the interstate allocation factors used**
13 **in this case?**

14 A. Yes. As required by WAC 480-07-510(3)(c), the Company is providing Exhibit JAD-
15 8 to show the derivation of the interstate allocation factors in effect during calendar
16 year 2025, as well as the allocation factors in effect for calendar year 2026. The
17 calendar year 2026 allocation factors were used in the calculation of 2026 and 2027 pro
18 forma and provisional year adjustments where applicable.

⁵ *Washington Util. & Transp. Comm'n v. Cascade Nat. Gas Corp.*, Docket UG-240008, Direct Testimony of Jacob A. Darrington, Exh. JAD-6 (Mar. 29, 2024).

⁶ The Commission authorized this ROR in Order 05 in Docket UG-240008. Docket UG-240008, Order 05 Rejecting Tariff Sheets; Approving and Adopting Settlement with Conditions; Authorizing and Requiring Compliance Filing ¶¶ 50, 141 (Feb. 24, 2025).

1 **IV. SUMMARY OF ADJUSTED TEST YEAR REVENUES**

2 **Q. Please describe the Summary of Adjusted Test Year Revenues by Rate Schedule**
3 **presented in Exhibit JAD-2.**

4 A. Exhibit JAD-2 shows the unadjusted test year revenues, revenue adjustments, and
5 adjusted test year revenues by rate component for each of the Company’s rate
6 schedules. The intent is to present test year revenues in a way that is transparent and
7 accurately demonstrates the revenue impact by rate schedule of the Company’s revenue
8 adjustments. In Cascade’s 2015 general rate case, the Company agreed that for future
9 rate cases, it would identify booked revenues for accounting purposes between true gas
10 cost revenue, margin revenue, and all other revenue sources.⁷

11 **Q. Please explain the “Test Year Results” section in Exhibit JAD-2.**

12 A. This section shows the 2025 billing determinants (customer counts and therms) and
13 revenues by rate component and by rate schedule. This section is also separated
14 between margin revenues and non-margin revenues. The billing determinants and
15 revenues in this section reflect both billed and unbilled amounts and tie to the
16 Company’s general ledger and other records.

17 **Q. Did you treat unbilled revenue in a manner consistent with the Commission**
18 **direction in prior orders?**

19 A. Yes. As discussed below, I have used a restating adjustment to remove all billed and
20 unbilled revenue related to supplemental tariffs in compliance with the Commission’s
21 final order in Docket UG-200568.⁸

⁷ *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket UG-152286, Order 04 Final Order Approving Settlement Agreement ¶ 14 (July 7, 2016) (citing Joint Testimony supporting Settlement Agreement).

⁸ *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket UG-200568, Final Order 05 Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing ¶ 321 (May 18, 2021).

1 **Q. Please explain the adjustment titled “Remove Supplemental Schedule Revenues”**
2 **in Exhibit JAD-2.**

3 A. This adjustment removes all non-margin revenues associated with the Company’s pass-
4 through tariff schedules. This adjustment is required by Order 05 in Docket
5 UG-200568.⁹ Please note the test year decoupling deferral amounts are removed as part
6 of the “Weather Normalization” adjustment discussed below. The total impact of this
7 adjustment on operating revenues is a decrease of \$283,730,779, as seen in column (D),
8 line 203 of Exhibit JAD-2.

9 **Q. Please explain the adjustment titled “Billing Determinant Recalculation at**
10 **Current Rates” in Exhibit JAD-2.**

11 A. This adjustment recalculates the margin revenues using the billing determinants and its
12 current margin rates. The current margin rates include the rates approved in Docket
13 UG-240008, effective March 1, 2026,¹⁰ the proposed provisional plant adjustment rates
14 which the Company filed in Docket UG-260325 on April 30, 2026,¹¹ and the rate
15 related to Renewable Natural Gas (“RNG”) plant costs which was included in the
16 proposed revisions to Schedule 700 as filed in Docket UG-260212 on March 31,
17 2026.¹² This adjustment also includes the movement and recalculation of a special
18 contract customer’s billing determinants and revenues to Schedule 663 to reflect that
19 customer’s movement to Schedule 663 during 2025. Finally, this adjustment includes
20 the removal of the 2025 provisional plant adjustment revenues because the normalized
21 amount of provisional plant adjustment revenues is included in the calculation

⁹ *Id.*

¹⁰ Docket UG-240008, Order 05 at 18-19, Table 2.

¹¹ *Cascade’s Revision to Schedule 520*, Docket UG-260325, Initial Filing (Apr. 30, 2026).

¹² *Cascade’s Revision to Schedule 700*, Docket UG-260212, Initial Filing (Mar. 31, 2026).

1 explained above. The total impact of this adjustment on operating revenues is an
2 increase of \$17,378,084, as seen on column (G), line 203 of Exhibit JAD-2.

3 **Q. Please explain the adjustment titled “Weather Normalization” in Exhibit JAD-2.**

4 A. The Company performs a Weather Normalization adjustment to modify test year billing
5 determinants for Schedules 503 and 504 to be more representative of the average
6 weather conditions expected when the rates proposed in this case go into effect. This
7 adjustment is based on the proposed weather normalization methodology presented in
8 the Direct Testimony of Brian L. Robertson (Exhibit BLR-1T).

9 This adjustment also removes the test year decoupling deferral amounts which
10 have been deferred according to Rule 21 of the Company’s tariff, and which will be
11 included in the Company’s next annual decoupling mechanism adjustment filing for
12 refund or collection from customers. The removal of current year decoupling deferrals
13 allows the Company to restate its volumes without the impact of its decoupling
14 mechanism, which allows the Company to appropriately calculate the new authorized
15 revenue per customer for its decoupling mechanism. The new decoupling baseline
16 amounts will be discussed in the Direct Testimony of Zachary L. Harris (Exhibit
17 ZLH-1T).

18 The total impact of this adjustment on operating revenues is a decrease of
19 \$3,632,578, as seen on column (J), line 203 of Exhibit JAD-2.

20 **Q. Please explain the adjustment titled “End of Period” in Exhibit JAD-2.**

21 A. This adjustment presents billing determinants and associated revenues adjusted to 2025
22 End of Period (“EOP”) test year levels using the Company’s current margin rates as
23 discussed previously in the “Billing Determinant Recalculation at Current Rates”

1 adjustment. The basic service charge billing determinants are equal to 2025 EOP
2 customer counts, while the margin billing determinants are calculated by multiplying
3 2025 EOP customer counts by adjusted test year usage per customer. Additionally, this
4 adjustment separates the EOP therms between customers that are exempt and non-
5 exempt from the Company's Schedule 700 charges. Please see the Direct Testimony of
6 Company witness Zachary Harris in Exhibit ZLH-1T for further discussion regarding
7 the Company's proposal to separate out its per therm charges between customers that
8 are exempt and non-exempt from the Company's Schedule 700 charges. The Company
9 is utilizing EOP billing determinants in this case to address regulatory lag in its rate
10 base as discussed in greater detail in the Direct Testimony of Company witness Michael
11 P. Parvinen in Exhibit MPP-1HCT. The total impact of this adjustment on operating
12 revenues is an increase of \$1,309,397, as seen on column (M), line 203 of Exhibit
13 JAD-2.

14 **Q. Please explain the adjustment titled "RNG Margin Adjustment" in Exhibit**
15 **JAD-2.**

16 A. This adjustment removes the RNG revenues related to exempt customers which were
17 included in the "Billing Determinant Recalculation at Current Rates," "Weather
18 Normalization," and "End of Period" adjustments discussed previously. The RNG
19 revenues are related to Climate Commitment Act ("CCA") compliance and exempt
20 customers are not responsible for paying the Company's CCA compliance costs. The
21 total impact of this adjustment on operating revenues is a decrease of \$1,430,769, as
22 seen on column (O), line 203 of Exhibit JAD-2.

1 **Q. Please explain the “Adjusted Test Year Results” section in Exhibit JAD-2.**

2 A. This section represents the final adjusted test year billing determinants and revenues
3 for each rate class, which are used in the calculation of the Company’s 2025 revenue
4 requirement. Total test year rate schedule revenues are \$178,940,678, as seen on
5 column (Q), line 203 of Exhibit JAD-2, which ties to the sum of lines 2-3, column (F)
6 of Exhibit JAD-3.

7 **V. TEST YEAR RESTATING ADJUSTMENTS**

8 **Q. What are restating adjustments?**

9 A. Restating adjustments are defined by WAC 480-07-510(3)(c)(i) and allow the
10 Company to “adjust the booked operating results for any defects or infirmities in actual
11 recorded results of operations that can distort test period earnings.” The Company has
12 included several restating adjustments in Exhibit JAD-7, identified as R-1 through R-9.
13 The sum of these restating adjustments is included in the column titled “Restating
14 Adjustments” on Exhibit JAD-3.

15 **Q. Will you please describe each of the restating adjustments included in Exhibit**
16 **JAD-7?**

17 A. Yes. The “Remove Supplemental Schedules Adjustment” (Column R-1) removes both
18 the revenues and expenses associated with Schedules 555, 556, 557, 582, 590, 593,
19 594, 596, 597, 700, and 705. Please note that Schedule 597 was discontinued in 2025
20 because the Company incorporated the margin revenues associated with it into general
21 margin rates in its last general rate case, Docket UG-240008. The effect of reversing
22 the margin revenues from Schedule 597 decreases net operating income and accounts
23 for most of the decrease of the R-1 adjustment discussed below. However, this impact
24 is offset because the Company used the most recent margin rates from Docket

1 UG-240008 as part of the “Billing Determinant Recalculation at Current Rates”
2 adjustment in Exhibit JAD-2, which increases net operating income. Revenues
3 associated with the test year decoupling deferral amounts are removed as part of the
4 “Normalize Revenue Adjustment.” The R-1 adjustment is required by Order 05 in
5 Docket UG-200568.¹³ This adjustment decreases net operating income by \$1,718,454.

6 The “Normalize Revenues Adjustment” (Column R-2), normalizes and
7 annualizes the Company’s revenues in this case based on current rates, weather
8 normalization and the removal of test year decoupling deferrals. Please see the “Billing
9 Determinant Recalculation at Current Rates” and “Weather Normalization” sections
10 earlier in my testimony for a discussion of these adjustments. To avoid double counting
11 the impact of the provisional plant rate included in the adjustments discussed above,
12 this adjustment also removes the provisional plant revenue offset associated with the
13 temporary refund provided to customers related to the overcollection of provisional
14 plant revenues from March 5, 2025, through May 31, 2025.¹⁴ The R-2 adjustment
15 increases net operating income by \$10,909,231.

16 The “Restate End of Period Adjustment” (Column R-3) adjusts the Company’s
17 rate base from an Average of Monthly Averages basis to an EOP basis. This adjustment
18 also adjusts the annual depreciation to match the EOP rate base by multiplying the EOP
19 plant in service by the depreciation rates approved in Order 01 in Docket UG-250198.¹⁵

¹³ Docket UG-200568 Order 05 ¶ 321.

¹⁴ See Docket UG-240008, Compliance Acknowledgement Letter at 2 (Nov. 24, 2025) (discussing Cascade’s filing in Docket UG-250830 to make a temporary adjustment to Schedule 520 concerning the revenues collected from the period of March 5, 2025, through May 31, 2025).

¹⁵ *In re the Petition of Cascade Nat. Gas Corp., For An Accounting Order Approving a Change in Depreciation Rates Applicable to Nat. Gas Property*, Docket UG-250198, Order 01 Granting Amended Accounting Petition ¶ 12 (Nov. 6, 2025). This method complies with the Commission’s statement that its “preferred approach is to calculate depreciation by applying the authorized depreciation rates to the modified historical test year rate base.” Docket UG-210755, Order 09 ¶ 161.

1 The Direct Testimony of Michael P. Parvinen (Exhibit MPP-1HCT) discusses the
2 appropriateness of, and support for, the Company’s request to use EOP rate base. The
3 final component of this adjustment is to match the revenues with EOP rate base. The
4 adjustment to revenues was explained previously in my testimony and is calculated in
5 the “End of Period” section of Exhibit JAD-2. This adjustment increases net operating
6 income by \$1,487,712 and increases rate base by \$55,321,899.

7 The “RNG Margin Adjustment” (Column R-4) removes the RNG revenues
8 related to exempt customers as discussed earlier and calculated on Exhibit JAD-2. This
9 adjustment decreases net operating income by \$1,078,136.

10 The “Promotional Advertising Adjustment” (Column R-5) removes advertising
11 costs that promote the Company’s brand or image, rather than conservation or safety,
12 consistent with WAC 480-90-223.¹⁶ The Company removed in its entirety the amounts
13 related to advertising booked to FERC accounts 913 and 930.1. This adjustment
14 increases net operating income by \$37,324.

15 The “Restate Wages Adjustment” (Column R-6) annualizes a March 24, 2025,
16 increase to test year wages for union employees based on the six percent increase
17 included in the union contract. This adjustment is supported the Direct Testimony of
18 Roxanne M. Roerick (Exhibit RMR-1T). This adjustment reduces net operating income
19 by \$152,250.

20 The “Restate Incentives Adjustment” (Column R-7) removes all incentive
21 compensation paid to the Company’s executive group and utilizes a five-year rolling
22 average to normalize non-executive incentive compensation using the methodology

¹⁶ WAC 480-90-223(1).

1 approved in Order 05 in Docket UG-200568.¹⁷ This adjustment increases net operating
2 income by \$1,587,092.

3 The “Director & Officers Adjustment” (Column R-8) removes 50 percent of
4 Director and Officer expenses, and 100 percent of organization dues allocated to the
5 Company from MDU Resources, resulting in an increase of \$209,056 to net operating
6 income.

7 The “Anacortes Lateral Adjustment” (Column R-9) shows the reversal of an
8 offset to operations and management (“O&M”) expense related to the Anacortes
9 Lateral. This project was originally started in 2015, however, in 2020 it seemed clear
10 that the project would not progress past the preliminary stages and the Company made
11 the decision to expense the amount of cost that was included in construction work in
12 progress (“CWIP”). The Anacortes Lateral project was revived when construction
13 began in 2025. The Company found that it could rely on some of the preliminary work
14 previously done and found that \$1,181,782 of previously incurred costs could be
15 reversed out of O&M expense and recapitalized back to CWIP. Since this was a one-
16 time adjustment that will not recur in future years, the Company is reversing the O&M
17 expense offset, which in total decreases operating income by \$933,608.

18 VI. TEST YEAR PRO FORMA ADJUSTMENTS

19 Q. What are pro forma adjustments?

20 A. Pro forma adjustments are defined by WAC 480-07-510(3)(c)(ii) as adjustments which
21 “give effect for the test period to all known and measurable changes that are not offset
22 by other factors.” The Company has included several pro forma adjustments in Exhibit

¹⁷ Docket UG-200568, Order 05 ¶¶ 183, 401.

1 JAD-7, identified as P-1 through P-8. The sum of these pro forma adjustments is
2 included in the column titled “Proforma Adjustments” in Exhibit JAD-3.

3 **Q. Will you please describe each of the pro forma adjustments included in Exhibit**
4 **JAD-7?**

5 A. Yes. The “Interest Coordination Adjustment” (Column P-1) revises federal income
6 taxes for the tax effect of the difference between the weighted average debt rate applied
7 to the proposed rate base shown in Exhibit JAD-3, column (H), line 31 and test year
8 interest expense. This adjustment ensures that rates reflect the tax effect of the interest
9 associated with funding rate base at the weighted average cost of debt. This decreases
10 net operating income by \$345,899.

11 The “2026 Pro Forma Wage & 401(k) Adjustment” (Column P-2) shows the
12 impact of the 2026 wage increases for non-union and union employees as well as the
13 related increase in 401(k) expense due to increased wages. Per the collective bargaining
14 agreement, the 2026 union increase is four percent. The 2026 non-union increase is
15 4.11 percent. Included in the 2026 non-union wage increase are increases associated
16 with MDU utilities group and MDU Resources employees that are allocated to Cascade
17 rather than directly assigned. The wage adjustments were multiplied by nine percent to
18 capture the related increase to 401(k) expense. This adjustment is supported by
19 Company witness Roxanne Roerick in Exhibit RMR-1T. The result is a decrease in net
20 operating income of \$1,008,566.

21 The “MAOP Deferral Amortization” adjustment (Column P-3) relates to the
22 deferred balance associated with Cascade’s request for deferred accounting treatment
23 of incremental costs to implement the Maximum Allowable Operating Pressure

1 (“MAOP”) Determination and Validation Plan. Cascade filed its MAOP Determination
2 and Validation Plan in Docket PG-150120 on May 2, 2016¹⁸, and filed a petition for
3 deferred accounting treatment in Docket UG-160787 on June 1, 2016.¹⁹ In Cascade’s
4 2017 general rate case, Docket UG-170929, all parties agreed that Cascade should
5 recover pre-code pipe replacement expenses from customers over a ten-year
6 amortization period, beginning on August 1, 2018.²⁰ In Dockets UG-190210,
7 UG-200568, and UG-240008 Cascade was authorized to begin amortizing over ten
8 years additional deferred costs incurred.²¹ In the current case, Cascade is seeking to
9 recover \$2,349,071 of incremental deferred costs incurred since Docket UG-240008.
10 Amortizing the incremental deferred costs over ten years as well as annualizing the
11 increased amortization authorized in UG-240008 which began in March 2025 results
12 in a decrease to net operating income of \$451,306.

13 The “Pro Forma Rate Case Expense Adjustment” (Column P-4) increases test
14 year expenses for the estimated costs associated with the preparation, filing, and
15 resolution of this rate case. The Company’s estimate of rate case costs is \$950,000,

¹⁸ *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket PG-150120, Letter from Eric Martuscelli on behalf of Cascade Natural Gas Corporation to Alan Rathbun RE: MAOP Determination and Validation Plan (Apr. 29, 2016).

¹⁹ *In re the Petition of Cascade Nat. Gas Corp., For An Accounting Order Authorizing Deferred Accounting Treatment of Expenses Related to the Maximum Allowable Operating Pressure Determination and Validation Plan*, Docket UG-160787, Order 01 Order Granting Accounting Petition ¶¶ 5-6 (Jun. 8, 2016).

²⁰ *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket UG-170929, Order 06 ¶¶ 61-62 (Jul. 20, 2018) (citing Partial Joint Settlement Agreement (App. A) ¶¶ 21-22).

²¹ In Docket UG-170929, the parties agreed “to 10-year amortization of recoverable MAOP expenses... consistent with the Company’s proposal in its direct testimony,” Docket UG-170929, Joint Testimony in Support of Settlement, Exh. JT-1T at 15 (May 18, 2018), including that each new “investment cohort” of MAOP costs would be recovered over a 10-year amortization period from the date those costs are approved by the Commission, see, e.g., Docket UG-200568, Order 05 ¶ 31. In each of Cascade’s subsequent rate cases, the Company requested and received approval to amortize a new cohort of MAOP costs. *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket UG-190210, Direct Testimony of Maryalice C. Peters, Exh. MCO-1T at 9 (Mar. 29, 2019) (Recovery for MAOP costs was not contested and the parties agreed to a settlement that resolved all issues.); Docket UG-200568, Order 05 ¶ 31; Docket UG-240008, Direct Testimony of Jacob A Darrington, Exh. JAD-1T at 16-17 (Mar. 29, 2024) (Recovery for MAOP was also not contested here, and the parties agreed to a settlement that resolved all issues.).

1 which includes the work of consultants and legal counsel to help the Company prepare,
2 file, and resolve this multi-year rate plan. The adjustment is calculated by normalizing
3 the Company's total estimate over two years and then subtracting the rate case costs
4 expensed in 2025. This adjustment results in a decrease to net operating income of
5 \$318,297.

6 The "2026 Pro Forma Medical, Dental, & Life Insurance Expense Adjustment"
7 (Column P-5) shows an estimated increase of 5.6 percent in medical, dental, and life
8 insurance expense over the amount in calendar year 2025. This adjustment is supported
9 by the Direct Testimony of Roxanne M. Roerick (Exhibit RMR-1T). The adjustment
10 decreases net operating income by \$165,317.

11 The "Pro Forma Property Tax Adjustment" (Column P-6) shows the estimated
12 increase in property tax expense in calendar year 2026 related to assets placed in service
13 in 2025. The Company's 2025 property tax expense was based on the assessed value
14 of the previous year's investment, plus or minus a true-up of the previous year's
15 estimate. Since current property tax expense is based on previous years' investment,
16 the Company derived an effective property tax rate based on 2024 plant in service and
17 2025 property tax expense (without the previous year's true-up) and multiplied this by
18 the 2025 increase in plant in service. Given the lag in property tax assessments and the
19 Company's growing plant in service, the Company believes this approach to be a
20 reasonable estimate of incremental property tax expense. The adjustment decreases net
21 operating income by \$196,656.

22 The "2026 Pro Forma Tax Flow-Through Adjustment" (Column P-7) shows the
23 estimated decrease to current tax expense to account for the estimated 2026 tax flow-

1 through related to the equity portion of Allowance for Funds Used During Construction
2 (“AFUDC”) and other pre-1981 tax flow-through items. Because Construction Work
3 in Progress is not included in rate base, the debt and equity portions of AFUDC are
4 allowed to be capitalized and are depreciated once the plant is placed in service.
5 However, for income tax purposes, neither the equity portion originally capitalized for
6 accounting purposes, nor the subsequent depreciation of that amount enters into the
7 determination of taxable income. Therefore, the Company must reflect the resulting tax
8 expense in rates. The pre-1981 tax flow-through items are related to approved rate-
9 making tax accounting treatment for deferred taxes that originated before 1981. The
10 adjustment increases net operating income by \$13,849.

11 The “2026 Pro Forma Misc. O&M Expense Adjustment” (Column P-8) shows
12 the estimated increase to O&M expense accounts based on the two-year expected
13 inflation as published by the Federal Reserve.²² The expected inflation amount was
14 applied to O&M expense after removing expenses related to certain restating and pro
15 forma adjustments made in this case. The Company believes that using the Federal
16 Reserve’s inflation expectations as described above produces a reasonable estimate of
17 incremental O&M expenses not otherwise adjusted in this case. The adjustment
18 decreases net operating income by \$403,667.

19 **VII. ADJUSTMENTS FOR PROVISIONAL YEARS 1 AND 2**

20 **Q. Why is the Company including adjustments for Provisional Years 1 and 2?**
21 A. As discussed in the Direct Testimony of Michael P. Parvinen (Exhibit MPP-1HCT),
22 the Company is required by law to file multi-year rate plans when it seeks an increase

²² “Inflation Expectations,” Federal Reserve Bank of Cleveland, available at <https://doi.org/10.26509/frbc-infexp> (last accessed Apr. 30, 2026).

1 in its base rates. As a result, the Company is including adjustments to estimate the
2 impacts to the Company's net operating income and rate base for events expected to
3 occur in Provisional Years 1 and 2. For Provisional Year 1, which is calendar year
4 2026, the pro forma adjustments I discussed above were included in the Test Year
5 revenue requirement calculation shown on Exhibit JAD-5, Column (B). The additional
6 adjustments to Provisional Year 1 that I discuss below relate only to provisional plant
7 additions and offsets to those plant additions and these adjustments were included in
8 the Provisional Year 1 revenue requirement calculation shown on Exhibit JAD-5,
9 Column (C). For Provisional Year 2, the pro forma adjustments discussed below are
10 included in the revenue requirement calculation shown on Exhibit JAD-5, Column (E),
11 while the adjustments related to provisional plant additions are included in the revenue
12 requirement calculation shown on Exhibit JAD-5, Column (F). Please note that
13 provisional plant additions are subject to retrospective review. The 2026 and 2027
14 provisional plant adjustments, as well as the 2027 pro forma adjustments are found on
15 Exhibit JAD-7 and identified as PR-1 through PR-8. The sum of these adjustments is
16 included in the columns titled "Provisional Year 1 Adjustments" and "Provisional
17 Year 2 Adjustments" on Exhibit JAD-4.

18 **Q. Will you please explain the adjustments to Provisional Year 1 included in Exhibit**
19 **JAD-7?**

20 A. Yes. The "2026 Provisional Plant Additions" adjustment (Column PR-1) and the "2026
21 Offsets to Provisional Plant Additions" adjustment (Column PR-2) capture the
22 estimated impacts to the Company's net operating income and rate base related to 2026
23 additions to plant in service and the related increases and offsets. Because 2026

1 additions to plant in service will be in service before rates go into effect and the
2 multiyear rate plan statute requires the Commission to, at a minimum, include in rates
3 the property in service as of the rate effective date, the Company is requesting EOP
4 treatment of its rate base, new customer revenues, and depreciation expense
5 adjustments.

6 **Q. Will you please explain the components of the PR-1 adjustment and its overall**
7 **impact to the Company's rate base?**

8 A. Yes. The Company is sponsoring testimony to support the estimated additions to plant
9 in service in 2026. The estimated increase to plant in service is offset by estimated
10 retirements in 2026. The Company does not specifically estimate retirements; instead,
11 it used a five-year average to determine the estimated amount of retirements in 2026.

12 The Company estimated the impact to accumulated depreciation by adding
13 2025 end of period depreciation expense to the estimate of depreciation expense on
14 assets added in 2026 as well as removing estimated retirements and removal costs. The
15 Company calculated the 2026 estimated depreciation expense by multiplying the 2026
16 estimated additions to plant in service by the depreciation rates approved in Order 01
17 in Docket UG-250198.

18 To comply with IRS normalization rules, the Company projected the balance of
19 accumulated deferred income taxes ("ADIT") by adding to the 2025 EOP balance of
20 ADIT the projected tax-effect of book-tax differences on assets in service at the end of
21 2025 as well as 2026 net additions to plant in service. Additionally, the amortization of
22 excess deferred income taxes ("EDIT") and unamortized loss on reacquired debt were
23 projected and added to the 2025 EOP balance of ADIT.

1 The total rate base impact of the PR-1 adjustment is an increase of \$50,754,850.

2 **Q. Will you please explain the components of the PR-1 adjustment and its overall**
3 **impact to the Company's net operating income?**

4 A. Yes. The Company estimated the increase to depreciation expense by multiplying the
5 2026 net additions to plant in service by the depreciation rates approved in Docket UG-
6 250198. The Company also reduced depreciation expense by multiplying the estimated
7 retirements by the average depreciation rate approved in Docket UG-250198.

8 Employing the same methodology and reasoning used in adjustment P-6, the
9 Company estimated the increase to property tax expense by multiplying the 2026 net
10 additions to plant in service by the effective property tax rate calculated in adjustment
11 P-6.

12 The Company incorporated the incremental projected EDIT amortization for
13 2026. This estimate comes from the Company's fixed asset system and is not related to
14 2026 estimated net plant additions, but it is required to be added to comply with IRS
15 normalization rules.

16 The total net operating income impact of the PR-1 adjustment is a decrease of
17 \$2,025,229.

18 **Q. Will you please explain the components of the PR-2 adjustment and its overall**
19 **impact to the Company's net operating income?**

20 A. Yes. The Company estimated new customer margin revenue as an offset to the increase
21 in rate base discussed above, consistent with the Commission's direction in the Used

1 and Useful Policy Statement in Docket U-190531 to account for all offsetting factors.²³
2 Cascade's customer forecast is supplied by Company witness Brian Robertson in
3 Exhibit BLR-3. For each month, the Company multiplied the estimated incremental
4 annual customers by the adjusted test year usage per customer. The Company then
5 multiplied this usage by the same margin rates used in the adjustments on Exhibit JAD-
6 2 which was discussed previously.

7 The Company also estimated O&M expense offsets related to the additions to
8 plant in service by reviewing the parameters of those projects to be completed in 2026.
9 As discussed above, the Commission's Used and Useful Policy Statement requires
10 Companies to account for any offsets related to additions to plant in service included
11 in a future test year.

12 The total net operating income impact of the PR-2 adjustment is an increase of
13 \$469,596.

14 **Q. Will you please explain the adjustments to Provisional Year 2 included in Exhibit**
15 **JAD-7?**

16 A. Yes. The "2027 Provisional Plant Additions" adjustment (Column PR-3) is very similar
17 to the PR-1 adjustment, employing the same reasoning and methodologies for
18 calculation of the adjustment. The rate base impacts include 2027 estimated net
19 additions to plant in service (inclusive of estimated retirements), an increase in
20 accumulated depreciation, and an increase to ADIT. The operating income impacts
21 include an increase in depreciation expense for 2027 estimated net plant additions,

²³ *In re the Comm'n Inquiry into the Valuation of Pub. Serv. Co. 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 Date ¶ 37 (Jan. 31, 2020).

1 including the effect of 2027 estimated plant retirements; an increase in property tax
2 related to 2027 estimated net additions to plant in service; and no change in EDIT
3 amortization. This adjustment also includes an estimated increase in O&M expense
4 related to operating an RNG production facility to be placed in service in 2027. In total,
5 this adjustment is a decrease to net operating income of \$4,599,531 and an increase to
6 rate base of \$94,961,245.

7 The “2027 Offsets to Provisional Plant Additions” adjustment (PR-4) is very
8 similar to the PR-2 adjustment, employing the same reasoning and methodologies for
9 calculation of the adjustment. Similar to the PR-2 adjustment, the Company included a
10 decrease in O&M expense for offsets related to 2027 estimated additions to plant in
11 service. This adjustment increases net operating income by \$367,404.

12 The “2027 Pro Forma Wage & 401(k) Adjustment” (Column PR-5) shows the
13 impact of the estimated increase in non-union wages and the known increase in union
14 wages for 2027 as well as the related increase in 401(k) expense due to increased wages.
15 Per the collective bargaining agreement, the 2027 union increase is 3.5 percent. The
16 Company is forecasting a 5 percent increase to non-union wages. This adjustment
17 follows the same calculation methodology as the P-2 adjustment. This adjustment is
18 supported by Cascade witness Roxanne Roerick in Exhibit RMR-1T. This adjustment
19 results in a decrease to net operating income of \$1,125,061.

20 The “2027 Pro Forma Medical, Dental, & Life Insurance Expense Adjustment”
21 (Column PR-6) shows an estimated increase of 8.5 percent in medical, dental, and life
22 insurance expense over the amount estimated in calendar year 2026. This adjustment

1 is supported by the Direct Testimony of Roxanne M. Roerick (Exhibit RMR-1T). The
2 adjustment decreases net operating income by \$264,980.

3 The “2027 Pro Forma Tax-Flow Through Adjustment” (Column PR-7) is very
4 similar to the P-7 adjustment, employing the same reasoning and methodologies for
5 calculation of the adjustment. However, based on the Company’s forecast, it does not
6 anticipate an incremental impact in 2027.

7 The “2027 Pro Forma Misc. O&M Expense Adjustment” (Column PR-8)
8 captures the estimated 2027 increase to O&M expense not otherwise adjusted in the
9 Company’s revenue requirement calculation. This adjustment follows the same
10 reasoning and methodologies for calculation as the P-8 adjustment explained
11 previously. The expected inflation was applied to net O&M expense after accounting
12 for the adjustment calculated in P-8. The adjustment decreases net operating income
13 by \$415,020.

14 **VIII. CONCLUSION**

15 **Q. Does this conclude your Direct Testimony?**

16 **A. Yes.**