

**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 MICHAEL P. PARVINEN**

May 29, 2026

TABLE OF CONTENTS

I. INTRODUCTION 1

II. SCOPE AND SUMMARY OF TESTIMONY 2

III. CASCADE’S MULTIYEAR RATE PLAN..... 2

 A. Overview..... 2

 B. MYRP period (RCW 80.28.425(1))..... 5

 C. Cascade’s MYRP meets the public interest standard of fair, just, reasonable, and sufficient rates (RCW 80.28.425(1))..... 5

 D. Cascade’s MYRP considers environmental health and greenhouse gas emissions reductions, health and safety concerns, economic development, and equity (RCW 80.28.425(1)) 6

 E. Cascade’s MYRP includes low-income bill assistance and energy burden consideration (RCW 80.28.425(2))..... 7

 F. Cascade’s MYRP includes the fair value of property for ratemaking purposes (RCW 80.28.425(3)(b)) 8

 G. Determination of revenues and operating expenses (RCW 80.28.425(3)(c)).. 9

 H. Earnings Test (RCW 80.28.425(6)) 10

 I. Performance Measures (RCW 80.28.425(7)) 10

IV. CAPITAL ADDITIONS PRESENTED IN THIS PROCEEDING..... 10

V. END OF PERIOD RATE BASE TREATMENT 15

VI. CASCADE’S PROPOSAL FOR RECOVERY OF RNG AND TENS INVESTMENT 18

VII. CONCLUSION..... 20

LIST OF EXHIBITS

Exhibit

Description

Exh. MPP-2

Statement of Operations and Rate of Return Reports from 2015 through 2025

1 **I. INTRODUCTION**

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

3 A. My name is Michael P. Parvinen, and my business address is 8113 West Grandridge
4 Boulevard, Kennewick, Washington 99336.

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

6 A. I am employed by Cascade Natural Gas Corporation (“Cascade” or “Company”), a
7 wholly-owned subsidiary of MDU Resources Group, Inc. (“MDU Resources”), as
8 Director, Regulatory Affairs. In this capacity, I am responsible for all regulatory
9 activity in Washington, Oregon, and Idaho as well as the Energy Efficiency programs
10 for both Cascade and Intermountain Gas Company (“Intermountain”).

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

12 A. I graduated from Montana College of Mineral Science and Technology in May 1986,
13 with a Bachelor of Science degree in Business Administration with an emphasis in
14 accounting. I have been employed by Cascade since September 2011. Prior to joining
15 Cascade, I was employed by the Washington Utilities and Transportation Commission
16 (“Commission”) for nearly 25 years. I was employed as a Regulatory Analyst, later as
17 a Deputy Assistant Director, and lastly as the Assistant Director of the Energy Section.

18 I have testified numerous times before both the Commission and the Public
19 Utility Commission of Oregon. I have also analyzed or assisted in the analyses of
20 numerous other utility rate filings and participated in many utility rulemaking
21 proceedings before the Commission. Finally, I attended the Seventh Annual Western
22 Utility Rate Seminar in 1987 and the 1988 Annual Regulatory Studies Program,
23 sponsored by the National Association of Regulatory Utility Commissioners.

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

2 **Q. What is the purpose of your Direct Testimony in this docket?**

3 A. My Direct Testimony will describe Cascade’s multiyear rate plan (“MYRP”) and how
4 it addresses the requirements of RCW 80.28.425, as well as other recent Commission
5 guidance, including additional public interest criteria and energy burden provisions. In
6 addition, I introduce the witnesses who will provide testimony on plant that has been
7 placed in service since Cascade’s last general rate case test year, as well as those
8 providing testimony on provisional plant additions. Next, I will provide an explanation
9 of why end of period treatment is appropriate in this MYRP and outline a proposed
10 provisional review process for plant additions. Finally, I will discuss the Company’s
11 plans to recover Renewable Natural Gas (“RNG”) investments and the Thermal Energy
12 Network (“TEN”) pilot investments.

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

14 A. Yes, I sponsor the following exhibit:

- 15 • Exh. MPP-2 Statement of Operations and Rate of Return Reports from 2015
16 through 2025

17 **III. CASCADE’S MULTIYEAR RATE PLAN**

18 **A. Overview**

19 **Q. Why is Cascade filing an MYRP?**

20 A. Cascade is filing an MYRP in compliance with RCW 80.28.425(1), which states:
21 “Beginning January 1, 2022, every general rate case filing of a gas or electrical
22 company must include a proposal for a multiyear rate plan as provided in this chapter.”
23 Pursuant to this statute, Cascade is proposing a two-year rate plan in this general rate
24 case filing.

1 **Q. In addition to RCW 80.28.425, did the Company rely on any other Commission**
2 **guidance on what should be included in the MYRP?**

3 A. Yes. The Company also followed the guidance outlined in the Commission’s Policy
4 Statement on Property that Becomes Used and Useful After Rate Effective Date (“Used
5 and Useful Policy”)¹ and Final Order 09 issued in Cascade’s Docket UG-210755
6 (“Final Order 09”),² particularly the guidance related to integrating an equity lens into
7 the Company’s decision-making processes.

8 **Q. What years are included in Cascade’s MYRP proposal?**

9 A. The Company is proposing a test year of the twelve-month period ended December 31,
10 2025. Pro forma adjustments have been applied to the test year as discussed in the
11 Direct Testimony of Jacob A. Darrington (Exhibit JAD-1T). The first provisional
12 period proposed by the Company will include planned capital in service for the calendar
13 year ended December 31, 2026. The first rate year will begin May 1, 2027, and will
14 include a base rate change to recover test year costs as well as an increase for the first
15 provisional year. The second provisional period will include adjustments and plant in
16 service for the year ended December 31, 2027, with rates effective May 1, 2028. Both
17 the 2026 and 2027 provisional period plant in service will be subject to refund as
18 outlined in greater detail below.

¹ *In re the Comm’n Inquiry into the Valuation of Pub. Serv. Co. Prop. 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 ¶ 36 (Jan. 31, 2020) (“Used and Useful Policy”).

² *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket UG-210755, Final Order 09 Approving and Adopting Settlement Agreement Subject to Conditions ¶¶ 58-59 (Aug. 23, 2022) (“Final Order 09”).

1 **Q. How did the Company select the provisional periods?**

2 A. The Company determined, based on the outcome of its first MYRP, which included
3 significant rate reductions based on the Company's execution challenges related to its
4 capital investment plan. Even though the Used and Useful Policy would allow for rates
5 to go into effect at the beginning of the rate effective period that the plant is placed in
6 service, Cascade is taking a measured approach by including only provisional plant
7 expected to be in service by the time rates go into effect as it continues to build on and
8 demonstrate the effectiveness of its capital planning and execution process. The
9 Company has made great strides in improving its budgeting processes along with a
10 heightened focus on timely execution and completion of projects. These changes are
11 addressed further in the Direct Testimony of Patrick C. Darras (Exhibit PCD-1T).

12 In addition, the seasonal nature of the Company's construction cycle normally
13 results in a significant portion of plant being placed in service during the fourth quarter
14 each year. For this MYRP, the Company is again taking a conservative approach and
15 proposing rate effective dates after plant is in service and used and useful for each of
16 the provisional years. Because the plant will be in service by the time rates go into
17 effect, the Company is also proposing end of period rate treatment for the test year and
18 each of the two provisional periods as outlined in greater detail below.

19 **Q. Has Cascade addressed all the requirements of an MYRP?**

20 A. Yes. As discussed in my testimony and the testimonies of many other witnesses in this
21 case, Cascade has incorporated the requirements of RCW 80.28.425 into this general
22 rate case. Those items include:

- 23 1. A MYRP proposal (RCW 80.28.425(1));
- 24 2. The public interest and fair, just, reasonable, and sufficient rates

- 1 (RCW 80.28.425(1));
- 2 3. The public interest, including environmental health and greenhouse gas
3 emissions reductions, health and safety concerns, economic
4 development, and equity (RCW 80.28.425(1));
- 5 4. Low-income bill assistance and energy burden consideration
6 (RCW 80.28.425(2));
- 7 5. Fair value of property (RCW 80.28.425(3)(b));
- 8 6. Determination of revenues and operating expenses
9 (RCW 80.28.425(3)(c));
- 10 7. Earnings Test (RCW 80.28.425(6)); and
- 11 8. Performance Measures (RCW 80.28.425(7)).

12 **B. MYRP period (RCW 80.28.425(1))**

13 **Q. Is Cascade proposing an MYRP in this case?**

14 A. Yes. As described above, Cascade is proposing a two-year rate plan.

15 **Q. Why did the Company decide on the two-year time frame?**

16 A. The Company believes the two-year period requested in this case will allow Cascade
17 to implement and develop processes and procedures that may allow a longer plan in the
18 future.

19 **C. Cascade's MYRP meets the public interest standard of fair, just, reasonable, and**
20 **sufficient rates (RCW 80.28.425(1))**

21 **Q. Has Cascade considered the traditional standard that includes the public interest**
22 **of fair, just, reasonable, and sufficient rates in this proposal?**

23 A. Yes. As discussed in the Direct Testimony of Jacob A. Darrington (Exhibit JAD-1T),
24 and supported by other witnesses identified through his testimony, Cascade has made
25 restating and pro-forma adjustments to the test year that demonstrate its proposed rates
26 are fair, just, reasonable, and sufficient. Specifically, test year plant in service is used
27 and useful, and the proposed pro forma adjustments to the test year and provisional

1 period amounts involve known and measurable items and adhere to the matching
2 principle.

3 The Company has also accounted for offsetting factors such as new customer
4 margin revenue and Operations and Maintenance (“O&M”) cost savings related to
5 additions to plant in service. The provisional period (2026-2027) plant in service
6 requests follow the Commission’s Used and Useful Policy. This policy establishes a
7 process for provisional recovery in rates of rate-effective period property, and such
8 rates are subject to refund. Cascade is proposing a process for a retrospective review of
9 the MYRP pursuant to RCW 80.28.425(4), which provides for Commission review
10 during the course of a utility’s MYRP. The proposed review process is described below.

11 **D. Cascade’s MYRP considers environmental health and greenhouse gas emissions**
12 **reductions, health and safety concerns, economic development, and equity**
13 **(RCW 80.28.425(1))**

14 **Q. How is Cascade addressing the public interest criteria outlined in**
15 **RCW 80.28.425(1)?**

16 A. Cascade’s commitment to the public interest includes its work to reduce greenhouse
17 gas emissions. As discussed in the Direct Testimony of Hart Gilchrist (Exhibit
18 HG-1HCT), Cascade is currently in the initial stages of implementing a portfolio of
19 decarbonization measures to reduce greenhouse gas emissions in compliance with the
20 state’s Climate Commitment Act (“CCA”) goals while still supporting the Company’s
21 statutory duty to serve and to provide for the energy requirements of residential
22 customers, businesses and industry.

23 In the Direct Testimony of Noemi Ortiz (Exhibit NO-1T), Cascade presents its
24 dedication and continued work to bring equity justice to its customers through
25 collaboration with its advisory groups and community-based organizations to identify

1 inequitable outcomes with the goal of proposing mitigating strategies to implement
2 restorative justice. Cascade has made significant strides in applying an equity lens to
3 its daily operations.

4 **E. Cascade’s MYRP includes low-income bill assistance and energy burden**
5 **consideration (RCW 80.28.425(2))**

6 **Q. How is Cascade addressing the energy burden provision in RCW 80.28.425(2)?**

7 A. In compliance with paragraph 75 in Final Order 09 in Docket UG-210755, Cascade
8 worked with interested parties to develop a robust energy discount and arrearage
9 management program. The Cascade Arrearage Relief Energy Savings (“CARES”)
10 program went into effect October 1, 2023.

11 As outlined in the testimony of Dan L. Tillis (Exhibit DLT-1T), CARES annual
12 spending will increase as Cascade continues to enroll more customers, and as new rates
13 are implemented, the discounts paid to customers, which are a percentage of their
14 monthly bill, will inevitably increase. However, since program spending is deferred,
15 budgetary increases cannot be made and planned for in the same manner as if the
16 program budget were an annual set amount. Also, since the Commission has initiated
17 Docket U-250953 to define how utilities are to interpret the program spending cap
18 established in RCW 80.28.425(2),³ demonstrating additional spending is not only
19 difficult given that program costs are deferred, but potentially out of compliance with
20 the statutory spending cap. Cascade will continue to both track Docket U-250953 and
21 perform outreach to grow its CARES program. The Company will make adjustments,
22 if needed, when the Commission issues a policy statement in Docket U-250953.

³ *In re the Comm’n Low Income Pol’y Statement*, Docket U-250953, Notice of Opportunity to File Written Comments at 1-2 (Dec. 24, 2025).

1 In addition, as part of this filing, Cascade is adjusting the bill discount rates
2 included in the CARES program to ensure the resulting energy burden does not exceed
3 the three to three and a half percentage target. Cascade is filing a revision to
4 Schedule 302 to revise the bill discount rates. This will help to ensure the rate increases
5 proposed in this MYRP do not disparately impact Cascade’s low-income customers.

6 **F. Cascade’s MYRP includes the fair value of property for ratemaking purposes**
7 **(RCW 80.28.425(3)(b))**

8 **Q. How much is the Company proposing to increase rate base through December 31,**
9 **2025?**

10 A. As seen in Exhibit JAD-3, the Company’s rate base at the end of 2025 is approximately
11 \$748 million. That represents an increase of approximately \$143 million since the test
12 year in the Company’s last general rate case (Docket UG-240008). Most of the growth
13 in rate base is related to the Company’s investments in the safe, reliable distribution
14 system that is used to provide energy to customers throughout the year, but especially
15 on the coldest days.

16 **Q. Is Cascade providing detailed explanations for the increases to rate base?**

17 A. Yes. As discussed in the Direct Testimonies of Patrick C. Darras (Exhibit PCD-1T) and
18 Eric P. Martuscelli (Exhibit EPM-1T), Cascade is following its traditional practice of
19 providing a detailed description of large plant projects that have been placed in service
20 since the end of the test year in Cascade’s most recent rate case for provisional projects
21 where the final actual cost was greater than allowed in rates for the years 2024 and
22 2025.

23 Further, for plant placed in service during the provisional years of 2026 and
24 2027, Cascade has provided detailed project descriptions for planned projects over

1 \$1.0 million. Projects under \$1.0 million are summarized in the exhibits of each
2 witness. These plant additions are included as provisional adjustments. As outlined
3 later in my testimony, provisional projects will be subject to review and refund in future
4 filings. Therefore, the Commission can determine the prudence of these provisional
5 additions in future years. The review process will protect customers by confirming they
6 only pay for prudently incurred net plant investment while allowing the Company an
7 opportunity (not a guarantee) to earn its authorized returns.

8 **G. Determination of revenues and operating expenses (RCW 80.28.425(3)(c))**

9 **Q. How has the Company determined revenues and operating expenses for the**
10 **MYRP?**

11 A. The Company has used the 2025 test year with restating and pro forma adjustments
12 applied as described in the Direct Testimony of Jacob A. Darrington (Exhibit JAD-1T).
13 To offset the increase in rate base and other expenses included in the MYRP, Cascade
14 estimated new customer margin revenue based on Cascade's customer forecast
15 included in its 2025 Integrated Resource Plan as updated in the Direct Testimony of
16 Brian L. Robertson (Exhibit BLR-1T). The Company has also included an estimated
17 increase to depreciation expense as well as estimated O&M expense offsets related to
18 the proposed additions to plant in service. Cascade has also included the expected
19 incremental O&M increases associated with operating the Knott Landfill RNG facility.
20 Provisional Year two includes pro forma adjustments in line with those applied to the
21 test year.

1 **H. Earnings Test (RCW 80.28.425(6))**

2 **Q. What is Cascade proposing for an earnings test?**

3 A. Cascade will continue to use the earnings test outlined in RCW 80.28.425(6), which
4 states:

5 If the annual commission basis report for a gas company demonstrates
6 that the reported rate of return on rate base of the company for the
7 12-month period ending as of the end of the period for which the annual
8 commission basis report is filed is more than .5 percent higher than the
9 rate of return authorized by the commission in the multiyear rate plan
10 for such a company, the company shall defer all revenues that are in
11 excess of .5 percent higher than the rate of return authorized by the
12 commission for refunds to customers or another determination by the
13 commission in a subsequent adjudicative proceeding.

14 **I. Performance Measures (RCW 80.28.425(7))**

15 **Q. Is Cascade proposing any performance measures as a part of this case?**

16 A. Yes. Cascade's proposed performance measures are presented in the Direct Testimony
17 of Jennifer G. Gross (Exhibit JGG-1T).

18 **IV. CAPITAL ADDITIONS PRESENTED IN THIS PROCEEDING**

19 **Q. Please provide a summary of the other witnesses who provide supporting direct
20 testimony related to capital additions in this proceeding.**

21 A. Patrick C. Darras provides detailed discussions of actual plant placed in service from
22 2024 through 2025.⁴ Patrick C. Darras, Eric P. Martuscelli, and Hart Gilchrist describe
23 the provisional plant that is planned to be placed in service in 2026 and 2027. Table 1
24 below summarizes the plant additions described in testimony. The values for 2026 and
25 2027 are summaries of the plant additions described in testimony as well as the plant

⁴ Darras, Exh. PCD-1T.

1 additions included in exhibits for each witness and thus represent the plant addition
 2 requests for the provisional periods by category and in total.

3 **Table 1 – Plant Additions**

Description	Specific Projects	Programmatic Projects	Total
2026 Projects:			
Testimony and Exhibits of Patrick C. Darras	\$39,400,857	\$21,121,858	\$60,522,714
Testimony and Exhibits of Eric P. Martuscelli	5,788,111	16,322,433	22,110,544
Testimony and Exhibits of Hart Gilchrist	3,138,968	0	3,138,968
Total 2026 Projects	\$48,327,935	\$37,444,291	\$85,772,226
2027 Projects:			
Testimony and Exhibits of Patrick C. Darras	\$54,899,052	\$22,200,279	\$77,099,331
Testimony and Exhibits of Eric P. Martuscelli	16,281,673	10,424,868	26,706,541
Testimony and Exhibits of Hart Gilchrist	██████████	0	██████████
Total 2027 Projects	██████████	\$32,625,147	██████████

4 **Q. How does the Company propose to handle projects that are cancelled or added**
 5 **during the provisional periods?**

6 A. The Company’s capital budget is the best forecast available for the allocation of scarce
 7 capital resources in future years. Over time, however, priorities may change for a
 8 number of reasons, including construction priorities of other entities, or projects
 9 required for continued safety and reliability of the system as discussed further in the
 10 Direct Testimony of Patrick C. Darras (Exhibit PCD-1T). Cascade is proposing that it
 11 be allowed to replace authorized projects with newly identified projects in each of the
 12 provisional periods subject to refund, and only up to the total of rate base additions
 13 authorized in each provisional period. This portfolio approach will allow the Company

1 the flexibility required to meet business needs while still allowing for a thorough
2 evaluation of the used and usefulness of plant placed in service. The Commission has
3 approved this portfolio concept for other Washington utilities, and the approach will
4 prove valuable in allowing for continued progress on projects in the queue.

5 **Q. How are capital additions grouped?**

6 A. In all of the testimony related to plant in service, the Company has grouped the projects
7 into the categories outlined in the Used and Useful Policy. The witnesses identified
8 above discuss (1) Specific projects, which are clearly defined, identifiable, or discrete
9 investments, and (2) Programmatic projects, which are made according to a schedule,
10 plan, or method and are generally investments that are necessary to provide safe,
11 reliable service to Washington customers.

12 **Q. Were offsetting factors related to capital additions included in the provisional
13 years?**

14 A. Yes. As described more fully in the testimony of Jacob A. Darrington (Exhibit
15 JAD-1T), the Company included new revenues related to customer growth, updated
16 depreciation, and forecast retirements. In addition, where plant investments may result
17 in O&M savings, Cascade has included those savings as an offset to O&M expenses.

18 **Q. You stated above that Cascade will be subject to a review of its provisional year
19 rates. Please explain the proposed Provisional Review Process.**

20 A. Cascade is proposing the following process to allow for a review of provisional plant.
21 The outlined process will provide adequate opportunity to parties to review, and, if
22 necessary, challenge the recovery of provisional adjustments included in rates as
23 envisioned in the Used and Useful Policy. The following process is consistent with the

1 Commission’s direction in its Used and Useful Policy. Rates must be fair to both
2 customers and the public service company.⁵ As such, “[t]he Commission does not view
3 allowing companies to recover costs of future plant subject to refund as a pre-approval
4 of the prudence of the investment, nor does it view an order to refund as inconsistent
5 with its obligations under the used and useful standard.”⁶ The Company’s proposed
6 Provisional Review Process will include the following elements:

- 7 1. An annual retrospective review of all expected additions on a portfolio basis
8 will be conducted. The Used and Useful Policy envisions a process for
9 retrospective review.⁷
- 10 2. For all capital additions, by April 30 following the completion of each
11 provisional year 2026 and 2027, Cascade will file a report on the plant that has
12 been placed into service during the rate effective periods. The report will be
13 filed in this Docket.
- 14 3. As circumstances change, capital may need to be redeployed. Cascade will
15 include in the annual report a detailed explanation of any Funding Projects that
16 were placed into service but that were not included in this filing. However,
17 recovery of capital investment will be capped at the overall plant additions
18 approved by Commission Order for each provisional year. The Company
19 reserves the right to seek a deferral for additional costs not recovered through
20 this review process.
- 21 4. Each annual report will include the following comparison of the actual Funding
22 Project versus the Commission authorized Funding Projects:
 - 23 a. Actual costs versus authorized costs, as well as explanations for
24 significant cost variances, defined as variances greater than 10 percent
25 and \$500,000 from the authorized cost;
 - 26 b. Actual in-service date;
 - 27 c. Any material changes to the project descriptions;
 - 28 d. In the case of significant cost overruns, an update to the project
29 description that includes the justification to continue to invest in the
30 project;
 - 31 e. Updated information (if any) on offsetting factors for any Funding

⁵ Used and Useful Policy ¶ 43.

⁶ Used and Useful Policy ¶ 44.

⁷ Used and Useful Policy ¶ 38.

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Projects;

f. Detailed description of any Funding Projects not approved by Commission Order.

5. All parties will have the opportunity to review the evidence and have the ability to conduct discovery similar to discovery allowed in adjudicative proceedings (including, but not limited to, issuing data requests). Parties may then submit to this docket a response notifying the Commission whether the final reported costs are accepted or contested by that party.
6. The Parties will complete their review and file any response no later than six months after the Provisional Review Report is filed by the Company on May 30.
7. After non-Company Parties submit their responses to the Commission, Cascade will file a petition to amend the final order in this docket in accordance with WAC 480-07-875(1). The petition to amend the final order will indicate whether the parties agree to the proposed rate change or if a dispute exists that would require further process under WAC 480-07-875(1). If there is no dispute, the petition will specify any changes to the rate year based on updated information or explain that no changes are necessary.
8. Any amounts determined by the Commission to be subject to refund will be deferred for later return to customers, until a change in rates has occurred to reflect the necessary change for the capital amount refunded. Future return of any refunded amounts may be through a separate tariff or other future proceeding. The refunded amount will include interest at the authorized rate of return.

Q. Does your current recommendation differ from the provisional plant review process provided in the settlement in Docket UG-240008?

A. Yes. The Company’s current proposal includes more flexibility for the Company to timely recover its investments—even if there is a prudently incurred variance from the original budget. The provisional plant review process from the Docket UG-240008 settlement did not allow for flexibility, and instead capped individual projects at the expected or budgets amount. The increase in costs was still explained in the provisional review process, but due to the rigid cap at budgeted amounts, the increase in cost was

1 not allowed for recovery, even if the Company could demonstrate that the increase in
2 spending was prudently incurred.

3 **Q. Were there other potential costs not included for recovery?**

4 A. Yes. To the extent that unexpected costs arise that were not included in specifically
5 identified projects, they were also not to be included as a specific project and therefore
6 excluded from the provisional review.

7 **Q. Do you have support to demonstrate the magnitude of the amount of actual
8 investment that was not included for recovery during the provisional review?**

9 A. Yes, Table 2, below, shows by year the actual investment not recovered in rates.

10 **Table 2 – Actual Investment in 2024 and 2025 Not Recovered in Rates**

	2024	2025	Total
Actual Investment	\$72,125,001	\$107,499,326	
Provisional Review Recovery	\$67,984,747	\$97,940,315	
Actual Investment Not recovered	\$4,140,254	\$9,559,011	\$13,699,265

11 **Q. What does the analysis in Table 2 demonstrate?**

12 A. It demonstrates the importance of flexibility to be able to operate and account for the
13 changes in deployed capital investments in a prudent manner.

14 **V. END OF PERIOD RATE BASE TREATMENT**

15 **Q. What methodology has Cascade used to calculate its rate base in this case?**

16 A. Cascade’s method reflects its test period results consistent with longstanding
17 Commission precedent in the form of Average of Monthly Averages (“AMA”) and
18 then adjusts to reflect End of Period (“EOP”) rate base treatment in this case because
19 such treatment is appropriate where, as here, a utility has demonstrated regulatory lag

1 and EOP rate base treatment accurately reflects a company’s rate base during the rate
2 effective period.⁸

3 The Commission has found that EOP rate base is appropriate under any of the
4 following conditions: (a) abnormal plant growth; (b) inflation and/or attrition; (c) to
5 mitigate regulatory lag; and/or (d) under-earning over a historical period.⁹

6 Cascade is requesting EOP treatment for test year plant in service as well as the
7 plant that will be placed in service during 2026 and 2027.

8 **Q. Why is EOP treatment still appropriate for Cascade?**

9 A. In the Commission’s 1981 decision in *Wash. Utils. and Transp. Comm’n v. Wash. Nat.*
10 *Gas*, the Commission describes the various conditions under which EOP rate base may
11 be justified.¹⁰ While that case identified average of monthly averages (“AMA”) rate
12 base as “the most favored” approach, the Commission recognized EOP rate base
13 treatment as appropriate under one or more of the following circumstances:

- 14 1. Abnormal growth in plant;
- 15 2. Inflation and/or attrition;
- 16 3. Significant regulatory lag, or
- 17 4. *Failure of utility to earn its authorized rate of return over an historical period.*¹¹

18 Cascade is continuing to invest heavily in crucial infrastructure upgrades, but
19 regulatory lag is an ongoing issue for Cascade, and the Company has experienced

⁸ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-190529 *et al*, Final Order 08 Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing ¶ 78 (July 8, 2020) (applying EOP rate base to “present a more accurate, end-of-year valuation of rate base that better reflects the rate base value in the rate effective period”).

⁹ *Wash. Utils. & Transp. Comm’n v. Pac. Power & Light Co.*, Dockets UE-140762 *et al*, Order 08 Final Order Rejecting Tariff Sheets; Resolving Contested Issues; Authorizing and Requiring Compliance Filings ¶ 145 (Mar. 25, 2015).

¹⁰ 44 P.U.R. 4th 435, 438 (Sep. 24, 1981).

¹¹ Dockets UE-140762 *et al*, Order 08 ¶ 145 (citing *Wash. Nat. Gas Co.*, 44 P.U.R. 4th at 438) (emphasis added).

1 chronic under-earning since 2015. The Company’s use of EOP rate base treatment is
 2 also consistent with the methodology approved in Cascade’s most recent general rate
 3 cases, Dockets UG-210755 and UG-240008. Accordingly, and as described in more
 4 detail below, EOP rate base is the more appropriate treatment for the Company.

5 **Q. Please explain why reducing regulatory lag warrants EOP rate base treatment.**

6 A. One of the benefits of an MYRP is the reduction of regulatory lag. In the schedule the
 7 Company is proposing, plant will be in service and used and useful prior to rates going
 8 into effect for both the test year period and the two provisional rate effective periods.
 9 To realize the benefit of reduced regulatory lag, it is important that the rates include the
 10 impact of the full year of plant in service that results from EOP treatment.

11 **Q. Please explain why Cascade’s recent chronic underearning warrants EOP rate**
 12 **base treatment.**

13 A. The Company has experienced results of operations that have consistently been well
 14 below Cascade’s authorized rate of return (“ROR”). Table 3, below, shows the
 15 achieved rate of return for the 12 months ended December of each year, as well as the
 16 authorized ROR for each of those years. These results are based on the Commission
 17 Basis Report (“CBR”) and include adjusted net operating income and rate base
 18 calculated on an AMA basis.

19 **Table 3 – Cascade’s Results of Operations (in percentages)**

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Authorized (A)	8.85	7.35	7.35	7.31	7.31	7.24	6.95	6.85	6.85	6.85	7.185
Rate of Return (B)	5.73	6.83	6.39	6.58	5.89	6.19	6.14	5.43	6.37	5.25	5.5
(B - A)	-3.12	-0.52	-0.96	-0.73	-1.42	-1.07	-0.81	-1.42	-.48	-1.6	-1.69

1 As Table 3 shows, despite the fact that Cascade has completed six general rate
2 cases since 2015, its actual earnings have resulted in earned ROR that continues to be
3 well below its authorized rate of return. The second exhibit to the Direct Testimony of
4 Jacob A. Darrington (Exhibit JAD-3) shows that the Company again did not achieve
5 its authorized ROR in 2025, with a 5.62 percent ROR based on actual results of
6 operations and a 6.20 percent ROR after restating and pro forma adjustments. EOP rate
7 treatment is warranted based on these factors.

8 **Q. Are you including an exhibit that demonstrates Cascade’s ongoing and consistent**
9 **underearning?**

10 A. Yes. Exhibit MPP-2 presents the Statement of Operations and Rate of Return Reports
11 for the 12 months ending in December of each year for 2015 through 2025. These
12 reports show that Cascade’s unadjusted results have been consistently and
13 demonstrably below Cascade’s authorized rate of return.

14 **VI. CASCADE’S PROPOSAL FOR RECOVERY OF RNG AND TENS**
15 **INVESTMENT**

16 **Q. Please briefly describe how RNG investments were treated in Cascade’s last**
17 **general rate case, Docket UG-240008.**

18 A. Cascade had proposed to include RNG Investment in the provisional years; however
19 the Alliance of Western Energy Consumers identified that RNG investments were for
20 CCA compliance purposes and therefore should not be recoverable by Energy Intensive
21 Trade Exposed entities.¹² The parties to the settlement agreed to remove RNG

¹² *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket UG-240008, Response Testimony of Bradley G. Mullins, Exh. BGM-1T at 25-26 (Sep. 25, 2024).

1 investments from the rate case but allow Cascade to seek recovery of the RNG
2 investments in the CCA recovery mechanism once the investments were in service.¹³

3 **Q. Did Cascade seek recovery of RNG investments in the CCA recovery mechanism?**

4 A Yes, the Company requested recovery for RNG investments in its application filed
5 March 31, 2025, which was approved to become effective on June 1, 2025.¹⁴

6 **Q. What is Cascade proposing to do differently in this case?**

7 A. Cascade is proposing to remove RNG investments from the CCA recovery and instead
8 include these investments in base rates. This proposal is discussed in detail in the Direct
9 Testimony of Zachary L. Harris (Exhibit ZLH-1T).

10 **Q. Switching now to the TENs project, what is the Company's proposal for recovery
11 of the TENs investment?**

12 A. The TENs project is a significant investment but due to the timing of the project, as
13 described in the Direct Testimony of Company witness Patrick Kinney (Exhibit
14 PK-1T), the in-service date is expected to be in the first quarter of 2028, just outside of
15 the second provisional plant year of 2027. Therefore, Cascade is proposing to include
16 the TENs project in the CCA recovery mechanism filed at the end of February 2028 to
17 be effective June 1, 2028. As the TENs pilot project is a carbon reduction measure and
18 Cascade has used the CCA recovery mechanism for other CCA compliance
19 investments, it is an approach to reduce regulatory lag and encourage decarbonization
20 efforts on Cascade's system.

¹³ Docket UG-240008, Order 05 Rejecting Tariff Sheets; Approving and Adopting Settlement with Conditions; Authorizing and Requiring Compliance Filing, App. A ¶¶ 19-20 (Feb. 25, 2025).

¹⁴ *In re Cascade Nat. Gas Co. Tariff Revision, Tariff No. WN U-3*, Docket UG-250214, Open Meeting Memo at 1 (May 22, 2025) (recommending that the Commission take no action and thereby allow Cascade's proposed revision to Schedule 700 to become effective June 1, 2025).

1 **Q. In this case Cascade is proposing to remove RNG investments from the CCA and**
2 **include in tariff recovery. Why is Cascade proposing to treat the TENs project**
3 **differently?**

4 A. For the TENs project, it is simply a timing matter to reduce regulatory lag and
5 encourage carbon reducing efforts. Due to the fairly quick state mandated obligations
6 to complete the project and meet the Federal Internal Revenue Service timing to receive
7 Investment Tax Credit benefits, Cascade cannot delay the project to better match the
8 timing of a future MYRP nor does it have the ability to get the project done earlier to
9 meet the 2027 provisional year investment.

10 **VII. CONCLUSION**

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

12 A. Yes.