Exhibit No. __ (DG-1T)
Docket No. UG-170929
Witness: Donna Genora

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-170929

CASCADE NATURAL GAS CORPORATION

REBUTTAL TESTIMONY OF DONNA GENORA

March 23, 2018

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I. INTRODUCTION AND SUMMARY

Q. Please state your name, title and business address.

A. My name is Donna Genora. I am the Tax Director for MDU Resources Group, Inc. ("MDU Resources"). My business address is 400 North Fourth Street, Bismarck, North Dakota 58501.

Q. Would you please summarize your education and professional experience?

A. I graduated from San Jose State University with a Bachelor of Science in Accounting and I am pursuing a Masters in Taxation from Villanova University School of Law. I have worked as a tax professional for over 20 years, holding positions of increasing responsibility in both public accounting and industry. I have held my current position at MDU Resources since February of 2015. Prior to joining MDU Resources, I served as the Tax Director for SOA Projects, from 2012 to 2015, and a Senior Tax Manager at Omnicell, Inc., and before that at Ernst & Young.

Q. What is the purpose of your testimony?

A. I provide an overview of the impacts of the impacts of the Tax Cuts and Jobs Act on the Company and response to the Northwest Industrial Gas Users comment that regarding use of an alternative method to determine the plant-related excess deferred federal income tax ("EDFIT") amortization amount.

II. OVERVIEW OF IMPACTS FROM THE TAX CUTS AND JOBS ACT

Q. Briefly describe how the Tax Cuts and Jobs Act H.R. 1, signed into law on December 22, 2017, impacts Cascade's August 31, 2017 revenue requirement as originally filed.

A. Most significantly, the Tax Cuts and Jobs Act ("TCJA") replaces the prior-law of graduated corporate income tax rate structure with a maximum 35 percent rate with a flat rate of 21 percent, effective January 1, 2018. As income tax expense is one of the operating costs a public utility is permitted to recover, the underlying tax rate now should reflect the 21 percent rate. As the tax rate decreases, so do the savings to our customers.

Q. Are there other changes in the TCJA that impact Cascade's income tax expense?

A. Other key provisions of the TCJA have little to no impact on Cascade's revenue requirements because there are no such transactions or the impacts are not included in rate recovery. These provisions include but are not limited to the maximum deduction for net operating loss carryovers and taxation of certain Contributions in Aid of Construction. TCJA eliminates or reduces certain deductions including deduction for certain compensation arrangements, certain payments made to governments for violations of law, certain legal settlements, lobby expenses, domestic production deduction, certain employee benefits and the corporate alternative minimum tax. Additionally, limits on the deduction of net business interest expense do not apply to Cascade as a defined public utility.

Q. How will the lower corporate tax rate benefit be passed along to customers?

A. First, through the rate making process. Revenue requirements are established to reflect income tax expense of both its operating and capital costs at the lower tax rate. The August 31, 2017 filing must be updated to reflect a reduced 21 percent tax rate.

Second, net benefits will be returned to customers as a direct result of the revaluation of Cascade's accumulated deferred federal income taxes ("ADFIT") balances. ADFIT reflect the future income tax payable (liability) or receivable (asset). Cascade's ADFIT are in a net liability position reflective of past investments, where the company took accelerated tax deductions and were not incremental to amounts expensed for book. Since future liabilities are lower, customers will receive a refund. Essentially, customers paid 35 percent during the time these ADFIT were credit. To the extent the tax rate has been lowered from 35 percent, the reduction of the liability will be returned to the customer. The lowering of that liability is estimated at $33.4 M, otherwise known as "excess deferred income taxes" ("EDFIT").

Q. How did Cascade determine which ADIT to include?

A. The Company only included ADFIT which are recoverable through the rate making process.

Q. Are all of plant EDFIT "protected"?

A. No, plant EDFIT includes protected depreciation lives and methods, and non-protected plant basis adjustments. The company has applied ARAM to all plant EDFIT. Cascade uses PowerTax and PowerTax Provision to calculate deferred taxes and associated ARAM amortization. The current configuration requires extensive manual processes. To provide a timely and accurate response, we included all plant related deferred income taxes as protected. The non-protected plant is not significant, and the separation likely would not create a more accurate answer. We also believe the additional time and cost to account for separately would not have a significant cost benefit for the customers.

Q. How will the EDIT be returned to customers?

A. Cascade proposes that regulatory excess deferred tax reserves be amortized under two methods. The first method, in accordance with current normalization rules requires the use of the Average Rate Assumption Method ("ARAM"). ARAM amortizes the excess tax reserve of qualifying property over the remaining regulatory lives of the property at a rate that follows the reversal of the deferred taxes. Cascade proposes all plant-rated EDIT be amortized under this method. The second group of remaining non-plant EDIT is proposed to be amortized straight line over 10 years.

III. RESPONSE TO NWIGU REGARDING PLANT RELATED EDFIT

Q. Did Mr. Mullins recommend a method of accounting for the EDFIT amortization amount?

A. Yes. Mr. Mullins determined that the use of the alternative method both practical and is widely used among most utilities.

Q. Is it your experience that ARAM is infrequently employed by public utilities?

A. No. Our sister utilities have applied ARAM in the matters of state income tax rate reductions. In peer group discussions, both methods are employed depending on their facts and circumstances but I would not say most are using the alternative method. With the Tax Reform Act of 1986, Cascade along with many utilities did not have the available information or technology to effectively employ ARAM.

Q. Do you agree with Mr. Mullins's use of the alternative method to determine the plant related EDFIT amortization amount?

A. No, a method other the ARAM is not appropriate for Cascade.

Q. Can you explain why Cascade is required to use ARAM?

A. The normalization requirement in TCJA Section 13001 explicitly permits an alternative method but only if the utility does not have the data (vintage account data) necessary to apply ARAM. That is not the case with Cascade. The company does keep its records by vintage and the software and systems used for tax depreciation and ADIT has the functionality and current configuration to apply ARAM to its EDIT.

Q. Could Cascade choose to use an alternative method and amortize ratably over a weighted average life or composite rate used for regulatory book depreciation?

A. No, to comply with IRS Normalization requirements ARAM must be employed. Cascade does not qualify for the use of an alternative amortization method without jeopardizing normalization.1

Q. What are the consequences of returning the plant EDIT to customers sooner than allowed under a recognized normalization method of accounting?

A. For taxable years ending after December 31, 2017, a utility that violates normalization accounting method requirements by reducing excess reserves more rapidly than permitted

[1] H.R.1-46 amends to include Section 1561(d)(2)(B).

by ARAM will be subject to an increase in taxes by such excess amount, and will be limited to taking deductions for tax purposes equal to the depreciation used for regulatory purposes, which is commonly the straight-line method.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes.