Exhibit No. __ (MCP-1T)
Docket No. UG-20____
Witness: Maryalice C. Peters

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-20______

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF MARYALICE C. PETERS

June 19, 2020

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Maryalice C. Peters and my business address is 8113 West Grandridge Blvd., Kennewick, WA 99336.

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

A. I am employed by Cascade Natural Gas Corporation ("Cascade" or "Company"), a wholly-owned subsidiary of MDU Resources Group, Inc. ("MDU Resources"), as a Regulatory Analyst III. In this capacity, I prepare regulatory reports and rate/tariff filings for regulatory approval, and I provide regulatory and tariff advice and knowledge to others within the Company. I have been with the Company since December 2010.

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

A. I am a 2009 graduate of Washington State University with a B.A. in Management and Operations. In 2012, I attended a seminar on basic rates put on by the American Gas Association at the University of Chicago. I have attended other pertinent conferences such as the Annual Staff Subcommittee on Accounting sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") in 2013 as well as other NARUC-sponsored events.

I have testified before the Washington Utilities & Transportation Commission ("Commission") on behalf of Cascade in Dockets UG-170929 and UG-1910210, and also before the Public Utility Commission of Oregon in Dockets UG 347 and UG 390.

II. SCOPE AND SUMMARY OF TESTIMONY

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

A. My testimony will address the Company's proposed revenue requirement and explain the supporting calculations.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I sponsor the following exhibits:

Exhibit No. __ (MCP-2)	Result of Operations Summary Sheet
Exhibit No. __ (MCP-3)	Revenue Requirement Calculation
Exhibit No. __ (MCP-4)	Conversion Factor Calculation
Exhibit No. __ (MCP-5)	Summary of Proposed Adjustments to Test Year Results
Exhibit No. __ (MCP-6)	2020 Plant Additions

III. REVENUE REQUIREMENT AND RATE REQUEST PROPOSAL

Q. Please summarize the Company's proposed revenue requirement increase for the Washington jurisdiction.

A. To achieve its proposed rate of return ("ROR") of 7.54 percent, the Company is seeking to increase revenues from base rates by $13,830,451 for its Washington service territory, which is an increase of 5.28 percent. My calculation of the incremental revenue necessary to achieve a 7.54 percent ROR is shown in Exhibit No. __ (MCP-2). The calculation of the incremental revenue is also provided in Exhibit No. __ (MCP-3).

Q. What would Cascade's ROR be in the rate year absent this change?

A. Cascade's ROR for 2019 was 5.26 percent, and if rates remain unchanged, the Company expects that it would earn an ROR of 5.28 percent in the rate year, as shown in Exhibit No. __ (MCP-2). This amount is below the Company's proposed ROR of 7.54, and below the Company's authorized ROR of 7.24 percent.[1]

Q. Do other witnesses discuss the Company's proposed return on equity ("ROE") and ROR?

A. Yes. Cascade's expert witness Ms. Ann Bulkley provides testimony regarding the Company's proposed ROE, and Company witness Ms. Tammy Nygard, Controller, provides testimony regarding the Company's proposed capital structure and calculation of its proposed ROR of 7.54 percent.

Q. What is the Company's proposed test year for this case?

A. Cascade has selected the 12 months ending on December 31, 2019, as the test year. This 12-month period is the most recent complete period for which Cascade has data available to perform its analysis and is most representative of the costs that will be incurred by the Company in the rate year.

Q. Please describe the contents of Exhibit No. __ (MCP-2).

A. Column (1) includes the actual Washington booked figures for the test year, which is the 12 months ending December 31, 2019. The Working Capital allowance on line 23 is a calculation from the Company's actual average of monthly averages balance sheet.

Column (2) is the summation of all adjustments, both restating and pro forma, to achieve the pro forma results of operations. Each adjustment that is included in

[1] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corporation*, Docket UG-190210, Order 05 at ¶ 12 (September 20, 2019).

column (2) is identified separately in Exhibit No. __ (MCP-5) and will be described later in my testimony.

Column (3) is the sum of columns (1) and (2) and represents the expected results of operations in the rate year absent any rate change.

Column (4) identifies the proposed revenue increase and the net income impact of the revenue increase. The proposed revenue increase is also calculated in Exhibit No. __ (MCP-3).

Column (5) is the results of operations expected during the rate year with the proposed rates.

Q. Please describe the contents of Exhibit No. __ (MCP-3).

A. Exhibit No. __ (MCP-3) shows the calculation of the proposed revenue increase of $13,830,451 necessary to achieve the proposed rate of return of 7.54 percent.

Q. Please describe Exhibit No. __ (MCP-4).

A. Exhibit No. __ (MCP-4) shows the calculation of the conversion factor, which is applied to the required net income to produce the required revenue increase. The conversion factor considers revenue-sensitive items that change as revenue changes, including uncollectibles, Commission fees, Washington Business and Operating ("B&O") tax, and federal income taxes. The conversion factor is calculated to be 0.75481.

Q. Please describe Exhibit No. __ (MCP-5).

A. Exhibit No. __ (MCP-5) shows each of the Company's proposed adjustments that contribute to the "Summary of Adjustments" values shown in column (2) in Exhibit

No.___(MCP-2). The Company is proposing six restating adjustments and four pro forma adjustments.

Q. Please **briefly provide a definition of restating and pro forma adjustments.**

A. A restating adjustment is an adjustment to the actual booked operating results to a basis acceptable for ratemaking. A pro forma adjustment is a known and measurable change beyond the test year that is not offset by other factors.

Cascade's restating adjustments are identified as R-1 through R-6 in Exhibit No. __ (MCP-5). The Company's pro forma adjustments are also identified in Exhibit No. __ (MCP-5) and marked as P-1 through P-4.

Q. Would you describe each of the adjustments included in Exhibit No. __ (MCP-5)?

A. Yes. The first column, column (R-1), entitled "Annualize CRM Adjustment," is an adjustment to the total annualized revenues attributed to Cascade's pipeline replacement cost recovery mechanism ("CRM") and recovered from rate schedules 503, 504, 505, 511, 570, and 663, as shown in Mr. Isaac D. Myhrum's Exhibit No.__ (IDM-2). This adjustment is described by Mr. Myhrum in his Exhibit No. __ (IDM-1T). The result is a decrease to net operating income of $2,188,637.

Column (R-2), entitled "Promotional Advertising Adjustment," removes those advertising costs directed at promoting the Company brand or image, rather than conservation or safety, consistent with WAC 480-90-223. Cascade removed in its entirety the amounts related to advertising booked to FERC accounts 913 and 930.1. The result is an increase in net operating income of $21,876.

Column (R-3), entitled "Restate Revenue Adjustment," is the amount required to annualize revenues at current rates. This adjustment is also described in Mr.

Myhrum's Exhibit No.___(IDM-1T). The result of this adjustment is an increase in net operating income of $11,270,119.

Column (R-4), entitled "Restate End of Period (EOP) Adj.," is supported by Cascade witness, Mr. Myhrum, who describes the proposed adjustment in Exhibit No.__(IDM-1T). The result of this adjustment is a decrease in net operating income of $1,297,874.

Column (R-5), entitled "Restate Wages," annualizes wage increases for union employees for 2019. This adjustment reduces net operating income by $68,514.

Column (R-6), entitled "Executive Incentives," removes all incentive compensation paid to the Company's executive group. The result is an increase in net operating income of $972,281.

Column (P-1), entitled "Interest Coordination Adjustment," adjusts federal income taxes for the effect of the average debt rate used to calculate the rate of return applied to the proposed rate base shown in Exhibit No. __ (MCP-2), column (5), line 24. The result is a decrease in net operating income of $91,861.

Column (P-2), entitled "Pro Forma Wage Adjustment," has four components. The first component is the annualization of the 2019 wage increase that became effective on April 1, 2019, for union employees. The second component layers on the 2020 actual wage increases for non-union and union employees. The 2020 union increase is 3 percent, the same as 2019. The 2020 non-union increase is 4 percent. The third component adds in the 2021 estimated increases for the union and non-union employees. The non-union increase is estimated to be 4 percent, the same level granted in 2019 and 2020. However, the actual increase for 2021 will not be known until sometime in December 2020. The Company intends to update the calculation to reflect the actual non-union increase awarded at a later date. The 2021 union estimated increase is 3 percent. The fourth component reflects the 2020 and 2021 wage increases associated with MDU employees that are allocated to Cascade rather than directly assigned. In general, all non-union employees receive the same level of increases as approved by the Board of Directors. The result is a decrease in net income of $1,596,205.

Column (P-3), entitled "Pro Forma Plant Additions," reflects the Company's budgeted capital additions expected to go into service by December 31, 2020. The proposed projects are both non-revenue and revenue producing and will not be included in the Company's 2020 annual CRM filing. Exhibit No. ____ (MCP-6) identifies each project, the proposed in-service date, the most current proposed budget amount, and most importantly, an explanation of the investment. Company witness Mr. Patrick Darras testifies regarding the project details and costs. Although one of the projects is complete and uses the actual cost, the cost and timing of most of these projects are budgeted and estimated. Therefore, Cascade will update the actual costs and standing of each project as the case proceeds. As Company witness Mr. Michael Parvinen explains, the Company's intent is to add into rate base only those projects that will be used and useful by the time rates from the current proceeding go into effect.

Q. What is the impact of the Pro Forma Plant Adjustment?

A. The net income effect of the rate base additions, depreciation expense, property taxes, new customer revenue, and an offsetting revenue increase results in a decrease in operating income of $2,782,708. The rate base impact is an increase of $64,780,798.

Q. Please continue with the description of the columns included in Exhibit No. ____ (MCP-5) by describing the MAOP Deferral Amortization included in Column (P-4).

A. Column (P-4), entitled "MAOP Deferral Amortization," provides a nine-year amortization of the anticipated deferred balance associated with the approval in Docket UG-160787 of Cascade's request for deferred accounting treatment of incremental costs to implement the Maximum Allowable Operating Pressure ("MAOP") Determination and Validation Plan submitted to the Commission on April 29, 2016, under Docket PG-150120. In Cascade's general rate case, Docket UG-170929, all parties agreed that Cascade should recover pre-code pipe replacement expenses from customers[2] over a 10-year amortization period, beginning on August 1, 2018.[3] The deferred balance is anticipated to be $13,212,465. The net operating income effect is a reduction of $731,342.

Q. Please describe Exhibit No. __ (MCP-6).

A. Exhibit No. __ (MCP-6) identifies each project included in the Company's proposed pro forma adjustment for projects completed after the test year. The intent of the analysis is to comply with the Commission's previous guidance regarding the parameters for the inclusion in rate base of pro forma adjustments based on the most recent updated capital budget. The first column (A) identifies the function. The second column (B) identifies the funding project number and name. The third column (C) identifies the primary FERC account number for the project. The fourth column (D)

[2] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corporation*, Docket UG-170929, Partial Joint Settlement Agreement at ¶ 20 (May 17, 2018).
[3] *Id.* at ¶ 22

identifies the most up-to-date expected cost of the project. The sixth column (F) identifies the Washington portion of the project. The seventh column (G) identifies the amount included in the current request for recovery. The eighth column (H) identifies the footnote which provides the support for inclusion or exclusion in the current request for recovery. Finally, the last column (I) identifies the expected in-service date.

Q. Please explain where the justification or support for including each project is included in Exhibit No. ____ (MCP-6).

A. Brief summary of identified benefits of each project is included on Page 3 of the exhibit; however, Company witness Pat Darras provides the detailed support for all projects added.

Q. Does this conclude your testimony?

A. Yes.