

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

GENERAL RATE APPLICATION
OF



DECEMBER 11, 1995

Prepared Direct Testimony of

Larry L. Clark

Statement of Operations Per Book
Proforma Adjustment For General Office Addition
Revenue Sensitive Conversion Factor

WUTC	<u>26-95026,</u>	
DOCKET NO.	<u>-951415</u>	
EXHIBIT #	<u>T-53</u>	
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1 **PREPARED TESTIMONY OF LARRY L. CLARK**
2 **RE: EXHIBIT _____ (LLC-1), EXHIBIT _____ (LLC-2) & EXHIBIT _____ (LLC-3)**
3 **(Statement of Operations Per Books and Rate of Return,**
4 **Restating Adjustment of Rate Base and Expenses for**
5 **General Office Addition, and Revenue Sensitive Cost**
6 **Conversion Factor)**

7 Q. Please state your name and address for the record.

8 A. Larry L. Clark, 222 Fairview Avenue North, Seattle,
9 Washington 98109.

10 Q. By whom are you employed?

11 A. I am employed by Cascade Natural Gas Corporation as Manager
12 of General Accounting.

13 Q. Please describe your education and employment background.

14 A. I attended Washington State University and graduated in 1976
15 with a Bachelor of Arts Degree in Business Administration
16 with an emphasis in accounting. I was employed in 1976 by
17 Cascade Natural Gas Corporation as Property Accountant and
18 was made a general staff accountant in 1978. In 1987 I was
19 made Supervisor of General Accounting and in 1988 I became
20 the Manager of General Accounting.

21 Q. Have you previously sponsored testimony before utility
22 commissions?

23 A. No.

24 Q. As Manager of General Accounting, which of your
25 responsibilities are relevant to this filing?

26 A. I am responsible for the maintenance and integrity of the

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900

1 Company's accounting records and the analysis and
2 interpretation of the resulting financial information. In
3 addition, I am responsible for sound financial reporting to
4 management for its use in planning and controlling. Under
5 my direct supervision are a senior accountant and three
6 staff accountants as well as the supervisor of accounts
7 payable and payroll and the supervisor of property
8 accounting.

9 The supervisor of property accounting is also
10 responsible for gas cost accounting. I am also accountable
11 for the preparation of financial reports to regulatory
12 agencies, shareholders, and taxing authorities.

13 Q. Do you sponsor exhibits in this filing?

14 A. Yes, I sponsor Exhibit _____ (LLC-1), the Statement of
15 Operations Per Books and Rate of Return; Exhibit
16 _____ (LLC-2), the Proforma Adjustment of Rate Base and
17 Expenses for General Office Addition; and
18 Exhibit _____ (LLC-3), the Revenue Sensitive Cost Conversion
19 Factor.

20 Q. Were all of these exhibits either prepared by you or under
21 your supervision?

22 A. Yes.

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900

1 EXHIBIT____ (LLC-1)

2 STATEMENT OF OPERATIONS PER BOOKS AND RATE OF RETURN

3 Q. Please describe Exhibit _____ (LLC-1).

4 A. Exhibit ____ (LLC -1) includes five schedules. Schedule 1
5 displays the test period operating results for the State of
6 Washington. Schedule 2 calculates the direct and allocated
7 Washington operating revenues and expenses. Schedule 3
8 develops the average rate base for the test year. Schedule 4
9 develops the working capital allowance included in rate
10 base. Schedule 5 shows the calculation of formulas used to
11 allocate indirect costs.

12 Q. Please explain Schedule 1.

13 A. Schedule 1 summarizes the State of Washington results of
14 operations, the rate base, and the rate of return of 7.73%
15 for the test period. The results of operations balances
16 were carried forward from Schedule 2 column (d). The rate
17 base amount was carried forward from Schedule 3, column
18 (d). The amounts from Schedule 1, column (b) are carried
19 forward to Exhibit_____ (JTS-1), Schedule 1, page 1,
20 column (b).

21 Q. Please describe Schedule 2.

22 A. Schedule 2 shows the assignment of costs between Washington

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900

1 and Oregon operations for the test period. Expenses are
2 classified as either direct or general. Those classified as
3 direct are generally incurred at the district level and are
4 directly assigned to the appropriate state. General
5 expenses are incurred at the corporate level and are not
6 directly attributable to one state, therefore they have been
7 allocated based on formulas which have been agreed to by the
8 Commissions of both Washington and Oregon. The goal in
9 developing these formulas was to achieve a fair and
10 reasonable allocation of indirect expenses that was easy to
11 use and one that would provide relative stability on a year
12 to year basis. Since implementation, approximately fifteen
13 years ago, they have been used on a consistent basis.

14 Q. Please describe the formulas used in allocating general
15 expenses on Schedule 2.

16 A. The "three-factor formula" has been used to allocate most
17 general expenses, the development of which is shown on
18 Schedule 4, lines 1 through 7. This formula is a simple
19 average of the three factors. The factors are the ratios
20 for each state to the total system for the preceding
21 calendar year of: average number of customers, employees
22 directly assigned to each state, and gross plant directly
23 assigned to each state.

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900

1 General depreciation is allocated on three separate
2 formulas each appropriate to the categories of plant being
3 depreciated. Depreciation expense associated with the
4 General Office, telemetry equipment, and the central
5 warehouse are allocated on the three-factor formula. Meters
6 & regulators are not assigned directly to a state when
7 purchased and therefore the related depreciation expense is
8 allocated on the average customers formula. This factor is
9 the ratio of customers by state and is one of the factors in
10 the three factor formula described earlier (Schedule 4, line
11 2). The propane plant depreciation expense is directly
12 assigned based on a formula that was agreed upon in the
13 corporation's last general rate case.

14 Q. How are federal and state income taxes assigned to
15 Washington operations?.

16 A. Current and deferred federal income taxes are allocated
17 between states based on the pre-tax operating income less
18 interest expense attributable to each state. The
19 calculation of this formula is shown on Schedule 4, lines 9
20 through 13. ITC amortization is allocated based on the rate
21 base assigned to each state. The development of this ratio
22 is shown on Schedule 4, line 15. Oregon state income taxes
23 are directly assigned to Oregon.

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900

1 Q. Please explain Schedule 3.

2 A. This exhibit develops the average rate base for the test
3 year. The amounts represent the average of monthly account
4 balance averages for the test year, except that the amounts
5 on lines 14 and 15 represent balances of accumulated
6 deferred income taxes as of the end of the test year. This
7 exception is made to comply with the established regulatory
8 policy of this Commission.

9 Q. Please describe what you have characterized in your exhibit
10 as direct and allocated amounts.

11 A. Direct amounts are plant investments that specifically serve
12 Washington customers and primarily consist of distribution
13 plant and district business offices. Allocated amounts are
14 plant investments that support operations in both Washington
15 and Oregon, such as the Company's corporate headquarters in
16 Seattle. Allocation factors are the same as those described
17 in Schedule 4. The cost of meters and regulators are
18 accumulated in FERC plant accounts without regard to state
19 segregation. Thus, these costs are allocated on the ratio
20 of the number of customers in each state. Accumulated
21 deferred income tax balances relating to depreciation and
22 plant basis differences are allocated on the basis of direct
23 plant in Washington. Depending on the nature of the tax,

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900

1 other deferred income tax balances are either directly
2 assignable to Washington or allocated on the basis of direct
3 plant or the three-factor formula.

4 Q. Please explain Schedule 4.

5 A. This schedule develops investor-supplied working capital
6 included in rate base. Page 1 first calculates the total
7 system investor-supplied working capital and then computes
8 the ratio of this excess to total average investments (line
9 5 divided by line 4). This ratio is then carried forward to
10 page 2, line 8 and multiplied by the total Washington
11 average operating investments on line 7. The resulting
12 product represents the working capital allowance included
13 in Washington rate base which is carried forward to Exhibit
14 _____(LLC-1), Schedule 3, page 1, column (d), line 37.

15 EXHIBIT____(LLC-2)

16 RESTATING ADJUSTMENT OF RATE BASE AND
17 EXPENSES FOR GENERAL OFFICE ADDITION

18 Q. Please explain Exhibit____(LLC-2).

19 A. This exhibit summarizes the proforma adjustment of rate base
20 and depreciation expense resulting from reclassifying a
21 portion of our general office from nonutility to utility
22 operating property. Until December, 1994, Metrology One,
23 Inc., a subsidiary of the Company, occupied approximately

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900

1 3.0% of the total office space in the Company's buildings on
2 Fairview Avenue North in Seattle. This property was
3 classified on the Company's books as nonutility property
4 until December 31, 1994 when it was reclassified as utility
5 operating property. Prior to this time, the area occupied
6 by the planning and rates department was not contiguous due
7 to office space constraints. To increase efficiency, this
8 department now occupies this addition.

9 Q. Why is this restating adjustment to rate base
10 appropriate? A. Typically, rates are established using
11 test year average recorded balances. This is normally
12 appropriate since rate base additions are generally
13 accompanied by concurrent growth in the customer base. This
14 allows the Company to recover its investment as well as earn
15 a return. However, the investment in the general office
16 addition is not characterized as a "typical" rate base
17 addition since it will not be accompanied by a corresponding
18 increase in revenues. It is a support facility serving the
19 existing customer base. This amount must be included in
20 rate base in order for the Company to have an opportunity to
21 recover its investment and earn a return on the investment
22 before its next general rate case.

23 Exhibit____(LLC-2) shows the net book value of this

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900

1 addition allocated to Washington rate base. This amount
2 represents the average of monthly account balance averages
3 for the test year. This exhibit also displays the annual
4 depreciation expense adjustment relating to this addition.

5 **EXHIBIT_____ (LLC-3)**

6 **REVENUE SENSITIVE COST CONVERSION FACTOR**

7 Q. Please explain Exhibit_____ (LLC-3).

8 A. This exhibit develops the revenue sensitive cost factors and
9 the net to gross conversion factor for the test period.
10 Line 1 represents gross revenue using decimals instead of
11 percentages. The factor for uncollectibles was derived by
12 dividing the test period net write-offs of uncollectible
13 accounts by the gross revenue from gas sales for the twelve
14 months immediately preceding the test period. Lines 4, 5
15 and 6 display the revenue sensitive cost factors as
16 identified; Line 8 shows the conversion of the federal
17 corporate income tax rate, and Line 9 is the resultant
18 conversion factor.

19 Q. What use is made of the revenue sensitive factors?

20 A. Each time a revenue adjustment figure is developed in these
21 proceedings it is necessary to calculate the associated
22 change in expense directly related to the changes in
23 revenue. In the summary Exhibit_____ (JTS-1), Mr. Stoltz uses

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900

1 these factors each time an adjustment to revenue is made.
2 Q. What use is made of the net to gross conversion factor?
3 A. The net to gross conversion factor is used to convert the
4 net operating income changes to gross revenue requirements.
5 This is done in Exhibit____(JTS-5).
6 Q. Does this complete your testimony on Exhibit ____ (LLC-1),
7 Exhibit____(LLC-2) and Exhibit____(LLC-3)?
8 A. Yes it does.

9

TESTIMONY OF LARRY L. CLARK - 1995 GENERAL RATE APPLICATION

CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE NORTH

SEATTLE, WASHINGTON 98109

(206) 624-3900