

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

GENERAL RATE APPLICATION
OF



DECEMBER 11, 1995

Prepared Direct Testimony of

Katherine J. Barnard

Adjustment For Federal Income Taxes
Adjustment for Increased Postal Expense

WUTC	<u>UG-950326,</u>	
DOCKET NO.	<u>-951415</u>	
EXHIBIT #	<u>T-43</u>	
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1 **PREPARED TESTIMONY OF KATHERINE J. BARNARD**
2 **RE: EXHIBIT _____ (KJB-1 & KJB-2)**

3 **(Adjustment for Federal Income Taxes &**
4 **Adjustment for increase in Postal Expense)**

5
6 Q. Please state your name and address for the record.

7 A. Katherine J. Barnard, 222 Fairview Avenue North, Seattle,
8 Washington 98109

9 Q. By whom are you employed?

10 A. I am employed by Cascade Natural Gas Corporation as the
11 Senior Accountant.

12 Q. Please describe your education and employment background.

13 A. I graduated from the University of Washington in 1984 with
14 Bachelor of Arts degrees in both Business Administration and
15 Arts & Sciences. My Business Administration degree was in
16 Finance with additional course work in accounting. After
17 graduating, I was employed by Ernst & Whinney as a
18 consultant in their Telecommunications Group and was
19 promoted to Senior Consultant in 1986. In 1987, I joined
20 GTE-Northwest, Inc. as Budget Administrator. In 1988, I was
21 hired by Nevada Bell as Manager - Separations. My
22 department was responsible for preparing FCC tariff filings
23 including rate development and the Tariff Review Plan (TRP)
24 along with all compliance reporting for the FCC and the
25 National Exchange Carriers Association (NECA). In 1990, I

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1 joined the Washington Utilities and Transportation
2 Commission as Revenue Requirement Specialist 4. While there
3 I reviewed tariff filings, affiliated interest applications,
4 and performed audits of several telephone companies'
5 compliance reports. In 1992, I was employed by Cascade
6 Natural Gas Corporation as Senior Accountant.

7 Q. What are your primary responsibilities as Senior Accountant?

8 A. My primary responsibilities are the preparation of financial
9 reports to both management and outsiders. This includes
10 preparation of the income statement, development of the
11 Washington and Oregon balances, including allocation factor
12 development, and calculation of Federal and State current
13 and deferred income taxes.

14 Q. Do you sponsor exhibits in this filing?

15 A. Yes, I sponsor Exhibit _____ (KJB-1), Adjustment for
16 Federal Income Taxes and Exhibit _____ (KJB-2), Adjustment
17 for Increase in Postal Expense.

18 **Adjustment for Federal Income Taxes**

19 Q. Please describe Exhibit _____ (KJB-1).

20 A. Exhibit _____ (KJB-1) shows the adjustment to restate the
21 test period provision for current income tax expense. The
22 adjustment is the result of the difference between book and
23 tax depreciation on pre-1981 assets.

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1 Q. Please explain why this adjustment is necessary.

2 A. Prior to 1981, differences between book and tax depreciation
3 were not normalized. Current income taxes were calculated
4 using "flow through" depreciation. In other words, the
5 level of income taxes included in operating income was
6 calculated using accelerated depreciation rates that the
7 company utilized on the income tax return. No offsetting
8 entry to deferred taxes was made, therefore the benefit of
9 accelerated depreciation was "flowed through" to the
10 ratepayer with the understanding that in the future the
11 ratepayer would incur the additional income tax expenses the
12 company incurs when the book depreciation expense is greater
13 than that on the income tax return. Each year the current
14 tax expense increases due to the declining tax depreciation
15 levels and therefore the proforma adjustment is necessary.

16 Q. Please explain how the adjustment was calculated.

17 A. We have projected the 1996 tax depreciation based on the
18 tax depreciation schedules in place during 1994 for the
19 pre-1981 assets. This projection was then compared to the
20 tax depreciation of those same assets used in the 1994 tax
21 accrual. The difference between the prospective 1996 tax
22 depreciation and the 1994 tax depreciation calculates the
23 incremental taxable income to which the federal income tax

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1 rate of 35% is applied. The additional taxable income was
2 allocated between the Washington and Oregon jurisdiction
3 based on the pre-tax operating income, less interest and
4 state income taxes attributable to each state. For the test
5 year these percentages were 83.90% Washington and 16.10%
6 Oregon. The Washington adjustment is \$95,922 and is carried
7 forward to Exhibit _____(JTS-1), page 3, column (b), line
8 17.

9 Q. Was the Company's 1994 tax calculated at 35%?

10 A. No.

11 Q. Then why was the 35% rate used in this adjustment?

12 A. The 35% is the incremental rate that Cascade would have
13 experienced on the additional taxable income. In accordance
14 with the Revenue Reconciliation Act of 1993, the statutory
15 Federal Income Tax rate on earnings in excess of \$10
16 million is 35%. Since the adjustment reflects an
17 incremental increase in taxable income, the 35% incremental
18 tax rate was used.

19 Q. Why was 1996 tax depreciation used?

20 A. We anticipate that this rate increase will become effective
21 during 1996, therefore it is appropriate to base this
22 adjustment on projected 1996 tax depreciation levels.

Adjustment for Increase in Postal Expense

1
2 Q. Please explain Exhibit _____ (KJB-2).

3 A. In January 1995, the United States Postal Service
4 implemented an across the board increase in postage rates.
5 The first class mail rate increased from \$.29 to \$.32. In
6 addition, Cascade takes advantage of the lower bulk mailing
7 rates which are used primarily for customer bills. The
8 weighted average bulk rate experienced by Cascade increased
9 from \$.2371 to \$.2626. The purpose of Exhibit _____ (KJB-2)
10 is to calculate the proforma adjustment necessary to reflect
11 this rate increase. Cascade has two postage meters in the
12 general office, one for customer bills which are sent at
13 bulk rates, and the other meter for all other mail which is
14 sent first class. The bulk rates increased from \$.233 to
15 \$.258 for presorted mail and from \$.276 to \$.305 for
16 non-presorted mail. The postage rates for first class mail
17 increased from \$.29 to \$.32. Based upon an analysis of
18 postage costs we have a proforma adjustment of \$40,874 for
19 additional Washington expense.

20 Q. Please explain how the adjustment was calculated.

21 A. The adjustment was calculated in two parts. First the
22 additional costs for the bulk mail were calculated by
23 developing the weighted average postage cost using the old

1 rates and comparing it to the weighted average costs using
2 the postage rates effective 1/1/95. This average weighted
3 cost increased from \$.2371 to \$.2626 which represents a
4 10.7550% increase. This increase was applied to the
5 Washington test year postage balances to arrive at the
6 postage adjustment for customer mailings which is shown on
7 line 1 of the exhibit. Secondly, the increase for all other
8 mail from .29 to .32 was calculated as a 10.3448% increase.
9 As is shown on line 2 of the exhibit, this increase was
10 applied to the Washington test period expense to arrive at
11 its portion of the increase. The two components were added
12 together to calculate the total \$40,874 adjustment which was
13 then carried forward to Exhibit _____ (JTS-1), page 2, column
14 (h), line 11.

15 Q. Does this complete your testimony on Exhibits _____ (KJB-1)
16 and _____ (KJB-2) ?

17 A. Yes it does.