Exh. MCG-1Tr
Docket UG-21____
Witness: Maryalice C. Gresham

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-21____

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF MARYALICE C. GRESHAM

September 30, 2021

REVISED
DECEMBER 8, 2021

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Maryalice C. Gresham 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") 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 the American Gas Association Basic Rates Seminar 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.

Q. Have you previously written or presented testimony on behalf of Cascade before the Washington Utilities and Transportation Commission ("Commission") or any other commission?

A. Yes. I have testified before the Commission on behalf of Cascade in Dockets UG-170929, UG-190210, UG-200568, and 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 and adjustments.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I sponsor the following exhibits:

Exh. MCG-2	Results of Operations Summary Sheet
Exh. MCG-3	Revenue Requirement Calculation
Exh. MCG-4	Conversion Factor Calculation
Exh. MCG-5	Summary of Proposed Adjustments to Test Year Results

III. REVENUE REQUIREMENT AND RATE REQUEST PROPOSAL

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

A. The Company is seeking to increase revenues from base rates by $~~13,725,286~~13,698,760 for its Washington service territory, which is an overall increase of ~~5.12~~5.11 percent. As outlined on Exh. MCG-2, actual results of operations for 2020 were updated for restating adjustments in column (C), and pro forma adjustments in column (E) to arrive at an adjusted 2020 test year. The calculation of incremental revenue necessary to achieve an authorized rate of return ("ROR") of 6.93 percent is included in column (G). The calculation of the incremental revenue required is also provided in Exh. MCG-3, revenue requirement calculation.

Q. What would Cascade's ROR be in the rate year absent the proposed changes?

A. Cascade's per books ROR for 2020 was 5.87 percent, and if rates remain unchanged, the Company expects that it would earn an ROR of ~~4.72~~4.73 percent in the rate year, as shown in Exh. MCG-2, column (F), line 32. This amount is far below the Company's authorized ROR of 6.93.

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

A. Cascade has selected the 12 months ending on December 31, 2020, as the test year, as shown in Exh. MCG-2. This 12-month period is the most recent complete period for which Cascade has data available to perform its analysis, and it is most representative of the costs that will be incurred by the Company in the rate effective year, which is proposed to start April 1, 2022.

Q. Please describe the contents of Exh. MCG-2, Results of Operations Summary Sheet.

A. Column (B) includes the actual Washington booked figures for the test year 2020. The Working Capital allowance on line 29 is a calculation from the Company's actual average of monthly averages balance sheet.

Column (D) is the summation of restating adjustments the Company has made to the test year results; each adjustment that is included in column (C) is identified separately in Exh. MCG-5 and will be described later in my testimony. As described more fully below, restating adjustments are made to annualize known and measurable changes that occurred during the test period.

Column (E) is the summation of pro forma adjustments the Company has made to the test year results. Each adjustment that is included in column (E) is also identified separately in Exh. MCG-5 and will be explained later in the testimony.

Column (F) is the subtotal of all restating and pro forma adjustments.

Column (G) identifies the proposed revenue increase and the net income impact of the revenue increase. The proposed revenue increase is also calculated in Exh. MCG-3.

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

Q. Please describe the contents of Exh. MCG-3.

A. Exh. MCG-3 shows how the revenue requirement is calculated. First, the Company's adjusted rate base is multiplied by the proposed rate of return to calculate the required return. Second, the adjusted net income is subtracted from the required return to calculate the required net income. The final step is to convert the Company's required net income into its revenue requirement by dividing the required net income by the Company's conversion factor found on line 19 of Exh. MCG-4. Overall, Exh. MCG-3 shows that the proposed revenue increase of $~~13,725,286~~13,698,760, found on line 7, is necessary to achieve the proposed rate of return of 6.93 percent.

Q. Please describe Exh. MCG-4.

A. Exh. MCG-4 shows the calculation of the conversion factor, which is applied to net income to produce the revenue requirement. The conversion factor—which is sometimes called a "gross-up" factor—is a standard adjustment that takes into account revenue-sensitive items that change as revenue changes, such as Commission regulatory fees, Washington Business and Operating ("B&O") tax, and federal income taxes. As shown on line 19, the conversion factor is calculated to be 0.75506. This is the same methodology used to calculate the conversion factor in Cascade's last rate case, Docket UG-200568.

IV. TEST YEAR RESTATING ADJUSTMENTS

Q. Please describe the restating adjustments the Company proposes in this proceeding.

A. Restating adjustments are made to the test year results of operations in order to annualize known and measurable changes that occurred during the test period. Cascade's restating adjustments are identified as R-1 through R-9 in Exh. MCG-5, and these restating adjustments are summarized in column (C), "Restating Adjustments", of Exh. MCG-2.

Q. Would you describe each of the restating adjustments included in Exh. MCG-5?

A. Yes; the Company is proposing nine restating adjustments. The "Annualize CRM Adjustment" (Column R-1) is an adjustment to the total annualized revenues to bring the cost of Cascade's pipeline replacement cost recovery mechanism ("CRM") into the test year. These costs are recovered from rate schedules 503, 504, 505, 511, 570, and 663. The Testimony of Company witness Isaac Myhrum, Exh. IDM-1T, provides a detailed description of this adjustment. The Annualize CRM Adjustment decreases net operating income by $636,366.

The "Promotional Advertising Adjustment" (Column R-2) removes advertising costs that promote 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. This increases net operating income by $107,863.

The "Restate End of Period Adjustment" (Column R-3) adjusts the Company's rate base from an Average of Monthly Averages (AMA) basis to an End of Period ("EOP") basis. This adjustment also adjusts the annual depreciation expense to match the EOP rate base. Company witness Mark Chiles discusses the appropriateness of and support for the Company's request to use EOP rate base. The final component of this adjustment is to match the revenues with the rate base. Company witness Isaac Myhrum describes the increase in revenue resulting from the adjustment to use 2020 end of period billing determinants. This is the most current and complete annual revenue data. The result of the Restate End of Period Adjustment is a decrease in net operating income of $3,320,383 and an increase in rate base by $53,474,065.

The "Restate Wages Adjustment" (Column R-4) annualizes the test year wages for the 3.0 percent increase approved for union employees on April 1, 2020. The test year only includes the impact of nine months of the April 1, 2020 increase. Therefore, this adjustment is necessary to reflect a full year impact of the union contract. This adjustment is supported by Cascade witness James Kaiser in Exh. JEK-1T. This adjustment reduces net operating income by $59,453.

The "Restate Incentives" adjustment (Column R-5) removes all incentive compensation paid to the Company's executive group and utilizes a five-year rolling average to normalize non-executive incentive compensation using methodology approved in Docket UG-200568, Order 05. This increases net operating income by $1,255,708.

The "Remove 50% Director Fees" adjustment (Column R-6) removes 50 percent of all levels of Director and Officer Liability insurance premiums, resulting in an increase of $~~120,684~~140,713 to net income.

The "Remove Supplemental Schedules" adjustment (Column R-7) removes both the revenues and expenses associated with all pass-through rate schedules, such as protected plus excess deferred income tax, unprotected deferred income tax, gas cost, temporary gas cost amortization, decoupling mechanism, cost recovery mechanism, conservation program adjustment, and Washington energy assistance fund program cost recovery. This adjustment is required by Order 05, Docket UG-200268. The result is a decrease in net operating income of $161,446.

The "Restate Late Payment Charges Adjustment" (Column R-8) restates late payment charges to a normal level since these revenues are being tracked rather than booked within our COVID accounting deferral. Cascade's auditing firm does not allow the Company to book the lost revenues until a Commission Order has been issued for recovery. This increases net operating income by $272,140.

The "Removal of FP-319072 & FP-319209" adjustment (Column R-9) relates to the Keene Road and Spencer Creek funding projects. The Keene Road project is for a section of pipe that was "gassed up" and therefore placed into service in 2020. But in order to connect the pipe to the system, a regulator station that is scheduled to be complete in 2021 is required. The Spencer Creek project is for a section of pipe that was "gassed up" and therefore placed into service in 2020; however, customers are not projected to be on the system until late 2021. Thus, neither project is used and useful within the test year. This adjustment removes approximately $3.4 million from rate base, which results in a revenue requirement decrease by $366,049.

V. TEST YEAR PRO FORMA ADJUSTMENTS

Q. Please describe the pro forma adjustments the Company proposes in this proceeding.

A. The Company is proposing four pro forma adjustments in this proceeding. Each is described in more detail below. The pro forma adjustments are known and measurable changes beyond the test year that are not offset by other factors. The pro forma Wage Adjustment is the only adjustment that has not been addressed in other Cascade cases. The pro forma adjustments for Interest Coordination, Annualize Revenue Adjustment, and MAOP Deferral Amortization are all implementing the outcomes of prior cases. The Company's pro forma adjustments are identified in Exh. MCG-5, page 2, and marked as P-1 through P-4.

Q. Please explain each pro forma adjustment in Exh. MCG-5.

A. The "Interest Coordination Adjustment" (Column P-1) revises the booked interest expense, $11,766,975, by multiplying the pro forma rate base, $470,565,775, by the weighted average cost of debt, 2.311 percent, to determine the pro forma interest expense, which is $10,874,775. The pro forma interest is subtracted from the booked interest expense resulting in an adjustment of $892,200. The interest expense adjustment is then multiplied by the federal tax rate. The rationale of this adjustment is to adjust 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 Exh. MCG-2, column (H), line 30. This decreases net operating income by $187,362

The “Annualize Revenue Adjustment” (Column P-2) shows the amount required to annualize revenues at current rates. As explained in the Direct Testimony of Company witness Isaac Myhrum, Exh. IDM-1T, revenues have been adjusted to include both the impacts of the rate changes approved effective March 1, 2020, in Docket UG-190210 and for rate changes approved effective July 1, 2021, in Docket UG-200568. The Company first updated the 2020 test year, to reflect a full year of the margin approved in Docket UG-190210. Then, the Company included an adjustment to the test year to reflect the margin rate change effective July 1, 2021, under Docket UG-200568. This adjustment calculates how much total revenue the Company would receive if rates are in place for 12-months in the both the test year and rate year. The result of this adjustment is an increase in net operating income of $1,062,652.

The “Pro Forma Wage Adjustment” (Column P-3) shows the impact of the 2021 actual wage increases for non-union and union employees. The 2021 union increase is 3 percent and the 2021 non-union increase is 3.31 percent. Included in the 2021 non-union wage increase are increases associated with MDU utilities group and MDU Resources employees that are allocated to Cascade rather than directly assigned. This adjustment is supported by Cascade witness James Kaiser in Exh. JEK-1T. The result is a decrease in net income of $605,074.

The “MAOP Deferral Amortization” adjustment (Column P-4) provides a ten-year amortization of the anticipated deferred balance associated with Cascade’s request for deferred accounting treatment of incremental costs to implement the Maximum Allowable Operating Pressure ("MAOP") Determination and Validation Plan. The request was submitted to the Commission on April 29, 2016 in Docket PG-150120 and approved in Docket UG-160787. In Cascade's 2017 general rate case, Docket UG-170929, all parties agreed that Cascade should recover pre-code pipe replacement expenses from customers[1] over a 10-year amortization period, beginning on August 1, 2018.[2] In Docket UG-190210, Cascade was authorized to begin amortizing over ten years the deferred costs incurred after the previous rate case. Again, in Cascade's last rate case, Docket UG-200568, Cascade was allowed to amortize over ten years those costs deferred after the previous rate case. As the total deferral amortization is not reflected in the test period, Cascade is proposing to recover only the amount approved in its 2020 general rate case,[3] less the amortization booked amounts in 2020. The net operating income effect is a reduction of $346,111.

Q. Does this conclude your direct testimony?

A. Yes.

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1 *WUTC v. Cascade Natural Gas Corporation*, Docket UG-170929, Partial Joint Settlement Agreement at ¶ 20 (May 17, 2018).

2 *Id.* at ¶ 22

3 *WUTC v. Cascade Natural Gas Corporation*, Docket UG-200568, Order 05 at ¶ 21 (May 18, 2021).