Exh. AIW-1T
Docket UG-200568
Witness: Amy I. White

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADE NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET UG-200568**

TESTIMONY OF

Amy I. White

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

MAOP Deferral
Restate End of Period Adjustment

November 19, 2020

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Amy I. White, and my business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My business email address is Amy.White@utc.wa.gov.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst in the Energy Regulation Section of the Regulatory Services Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since June 2007.

Q. Please state your qualifications to provide testimony in this proceeding.

A. I have a master's degree in public administration as well as a master's degree in business administration from City University of Seattle, and a bachelor's degree in accounting and business administration from the University of Washington. I attended the National Association of Regulatory Utility Commissioners' Annual Regulatory Studies Program in August 2007, the Western Utility Rate School sponsored by Michigan State University in May 2008, and other sector-specific workshops, trainings, and conferences.

Q. Have you testified previously before the Commission?

A. I previously filed testimony in Docket UW-101818 regarding Cristalina Water, LLC, in Dockets UW-110107 and UW-110220, both concerning Summit View Water Company, in Dockets UE-170485 and UG-170486, general rate cases filed by Avista Corporation, and in Docket UG-170929, a general rate case filing by Cascade Natural Gas Corporation (Cascade or Company). Most recently I drafted testimony in PacifiCorp's 2019 general rate case, Docket UE-191024, though that case was settled before testimony was filed.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the scope and purpose of your testimony?

A. My testimony addresses Pro Forma Adjustment P-4, MAOP Deferral Amortization, which Staff contests.

Q. Please summarize your recommendations.

A. I recommend that the Commission order Cascade to use a new, separate ten-year amortization for each year's Maximum Allowable Operating Pressure (MAOP) investment cohort, consistent with the direction the Commission already provided

Cascade in Order 06 in Docket UG-170929[1]. The Commission should not accept Cascade's Adjustment P-4 because it amortizes MAOP investments more rapidly than the 10 years required by Order 06. Under Cascade's approach, the Company would shorten the amortization period further with each passing year.

Staff's Adjustment P-4 increases expense by $800,404 before the tax impact, resulting in a decrease to net operating income of $632,320. As compared to Cascade's Adjustment P-4, Staff's Adjustment P-4 increases the Company's net operating income by $99,022.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I prepared Exhibit AIW-2 which shows Staff's calculation of Adjustment P-4, MAOP Amortization Expense.

III. DISCUSSION

A. Contested Adjustment P-4, MAOP Deferral Amortization

Q. Please provide background about Company Adjustment P-4, MAOP Deferral Amortization.

A. The Company has implemented the MAOP Determination and Validation Plan for pipeline repair which was submitted to the commission in Docket PG-150120.

[1] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corporation,* Docket UG-170929, Order 06, 18, ¶ 61 (July 20, 2018) (2017 Cascade GRC Order) .

Cascade was approved for deferred accounting treatment of costs in Docket UG-160787.[2] The Company was ordered to amortize MAOP investments using a ten-year life in Docket UG-170929. [3]

Q. What approach did Cascade take in filing its adjustment?

A. The Company used one overall ten-year amortization period for all investments in the program rather than a subsequent ten-year period for each subsequent year's investment cohort. The Company's adjustment uses the first cohort's remaining amortization life of nine years to amortize the investments made in subsequent years.

Q. Why is Cascade's approach incorrect?

A. Because the Company amortized its most recent MAOP investments using a nine-year life, even though the Company was instructed to amortize them using a ten-year life. Cascade is attempting to progressively accelerate its recovery of MAOP investments in direct violation of the ten-year life for MAOP investments that the commission ordered in Docket UG-170929.

Q. How could Cascade's approach to amortizing its MAOP investments incentivize the Company to delay carrying out repairs?

A. It could incentivize the Company to delay investment in the MAOP safety program into the last years of the original ten-year time period to distort those years'

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[2] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corporation,* Docket UG-160787, Order 01, 4, ¶ 14 (November 10, 2016).
[3] 2017 Cascade GRC Order at 18, ¶ 61.

amortization expenses. If carried out to its extreme, all investments during the tenth year of the original investment cohort's life, for example, would be completely amortized <u>*in*</u> year ten, rather than <u>*over*</u> ten years. If year ten was then used as a test year in a general rate case, this distorted amortization expense would be embedded in rates, and customers would pay rates based on this distorted amount until the Company's next general rate case became effective.

Q. Please summarize the potential undesirable results from Cascade's approach.

A. Delay of investment into the MAOP program to distort amortization expense could lead to distorted costs being embedded in rates, forcing customers to overpay. Delaying repairs to distort amortization costs is also undesirable from a safety point of view, since the common good calls for potentially unsafe pipelines to be repaired as quickly as possible.

Q. Please describe Staff's adjustment.

A. Staff's Adjustment P-4 uses a separate ten-year amortization for each year's MAOP investment cohort, consistent with the Commission's direction in Order 06 in Docket UG-170929. Exhibit AIW-2 shows the calculation. This exhibit also includes a schedule with amortization start and end dates for each year's investment.

Q. What effect does Staff's adjustment have?

A. Staff's adjustment increases expense by $800,404 and decreases the net operating income after tax by $632,320.

B. Uncontested Adjustments

Q. Please describe Staff's proposed change to Restating Adjustment R-4, Restate Plant from Average of Monthly Averages basis to End Of Period basis.

A. The adjustment restates plant from average of monthly averages (AMA) to end of period (EOP) balances and is also impacted by Staff's proposed capital structure and weighted cost of capital. The Company's adjustment applies its proposed cost of capital to the EOP plant balance. The difference between the Company's proposal and Staff's recommendation results from the change in the cost of capital in the calculation. Staff's restated AMA to EOP adjustment further decreases the Company's net operating income by $812,389, as shown in Table 1 of Staff witness Hillstead's testimony.[4]

Q. Does Staff calculate a different return than the Company on the EOP plant balance?

A. Yes. Staff does not contest the Company's method of calculating R-4, which has been made using methodology consistent with previous rate cases. Staff's calculation applies Staff witness Parcell's recommended weighted cost of capital of 6.93 percent[5] to the EOP rate base. The Company's adjustment applies its proposed weighted cost of debt to the EOP plant balance. The difference between the Company's proposal and Staff's recommendation results from the change in the weighted average cost of debt in the calculation. Staff's restate AMA to EOP

[4] Hillstead, Exh. KMH-1T at 8:8.
[5] Parcell, Exh. DCP-1T at 2:14.

adjustment decreases the Company's net operating income by $812,389, identical to the Company's calculation. Staff's calculation differs from the Company's in calculating the revenue requirement, where the Company seeks $3,238,704 return on the EOP rate base, and Staff calculates $3,062,419, a difference of ($176,285), due to Staff's use of Parcell's cost of capital of 6.93 percent.

Q. Have you prepared an exhibit related to Adjustment R-4?

A. Yes. Exh. AIW-3 shows the revenue requirement effect.

Q. Does this conclude your testimony?

A. Yes.