

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION)	DOCKET UG-200568
)	
Complainant,)	
)	
v.)	
)	
CASCADE NATURAL GAS)	
CORPORATION)	
)	
Respondent.)	
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EXH. BGM-3

Revenue Requirement Calculations

To

RESPONSE TESTIMONY OF BRADLEY G. MULLINS ON

BEHALF OF

THE NORTHWEST INDUSTRIAL GAS USERS

November 19, 2020

Natural Gas Revenue Requirement Summary (\$000)

Line	Adj. No.	Description	Staff DR 127 at AWEC RoR			AWEC Proposed		
			Net Oper. Income	Rate Base	Rev. Req. Def. / (Suf.)	Net Oper. Income	Rate Base	Rev. Req. Def. / (Suf.)
1		Per Book Results (Y/E Dec. 2018)	20,804	374,226	6,295	\$20,804	374,226	6,295
<i>Restating Adjustments:</i>								
2	R-1	Annualize CRM Adjustment	(2,192)	-	2,904	(2,192)	-	2,904
3	R-2	Promotional Advertising Adjustment	22	-	(29)	22	-	(29)
4	R-3	Restate Revenue Adjustment	11,264	-	(14,923)	11,264	-	(14,923)
	R3 (A11)	TCJA Revenues	-	-	-	2,717	-	(3,600)
5	R-4	Restate End of Period (EOP) Adj.	(812)	21,636	3,034	(530)	-	702
6	R-5	Restate Wages	(69)	-	91	(69)	-	91
7	R-5 (A8)	Affiliate Wages and Salaries	-	-	-	376	-	(498)
8	R-5 (A9)	Cascade Wage Escalation	-	-	-	790	-	(1,047)
9	R-6	Executive Incentives	972	-	(1,288)	972	-	(1,288)
10	R-6 (A7)	Affiliate Bonues	-	-	-	593	-	(785)
11	A10	Director Fees	-	-	-	138	-	(183)
Restated Results			29,989	395,863	(3,916)	34,887	374,226	(12,361)
<i>Pro Forma Adjustments:</i>								
12	P-1	Interest Coordination Adjustment	(92)	-	122	(444)	-	589
13	P-2	Pro Forma Wage Adjustment	(1,596)	-	2,115	(1,596)	-	2,115
14	P-3 (CA)	Pro Forma Plant Additions	(1,884)	64,723	8,351	(1,884)	64,723	8,351
15	P-3 (A1)	UG-190210 Pro Forma Additions	-	-	-	1,169	(26,761)	(3,970)
16	P-3 (A2)	Pro Forma Additions Not in Service	-	-	-	188	(5,426)	(740)
17	P-3 (A3)	Blanket Capital Accounts	-	-	-	843	(25,738)	(3,445)
18	P-3 (A4)	2020 Customer Growth	-	-	-	(967)	-	1,281
19	P-3 (A3)	Retirements	-	-	-	389	246	(493)
20	P-3 (A6)	Removal Cost	-	-	-	121	76	(153)
21	P-4	MAOP Deferral Amortization	(731)	-	969	(731)	-	969
22		Pro Forma Results	25,686	460,585	7,641	31,974	381,347	(7,859)
					Calculated:	12,004	(7,859)	
					ROE Impact	(4,363)	0	

Natural Gas Revenue Requirement Summary (\$000)

Line	Adj. No.	Description	Impact of AWEC Adjustments				AWEC Position
			Pre-Tax Net Oper. Income	Net Oper. Income	Rate Base	Rev. Req. Def. / (Suf.)	
1		Per Book Results (Y/E Dec. 2018)					
<i>Restating Adjustments:</i>							
2	R-1	Annualize CRM Adjustment	-	-	-	-	Neutral
3	R-2	Promotional Advertising Adjustment	-	-	-	-	Neutral
4	R-3	Restate Revenue Adjustment	-	-	-	-	Neutral
	R3 (A11)	TCJA Revenues	3,440	2,717	-	(3,600)	Neutral
5	R-4	Restate End of Period (EOP) Adj.	358	283	(21,636)	(2,332)	Oppose
6	R-5	Restate Wages	-	-	-	-	Oppose
7	R-5 (A8)	Affiliate Wages and Salaries	476	376	-	(498)	Proposed
8	R-5 (A9)	Cascade Wage Escalation	1,000	790	-	(1,047)	Proposed
9	R-6	Executive Incentives	-	-	-	-	Oppose
10	R-6 (A7)	Affiliate Bonues	750	593	-	(785)	Proposed
11	A10	Director Fees	175	138	-	(183)	Proposed
Restated Results			6,199	4,897	(21,636)	(8,445)	
<i>Pro Forma Adjustments:</i>							
12	P-1	Interest Coordination Adjustment	(446)	(352)	-	467	Neutral
13	P-2	Pro Forma Wage Adjustment	-	-	-	-	Neutral
14	P-3 (CA)	Pro Forma Plant Additions	-	-	-	-	Neutral
15	P-3 (A1)	UG-190210 Pro Forma Additions	1,480	1,169	(26,761)	(3,970)	Oppose
16	P-3 (A2)	Pro Forma Additions Not in Service	238	188	(5,426)	(740)	Propose
17	P-3 (A3)	Blanket Capital Accounts	1,067	843	(25,738)	(3,445)	Propose
18	P-3 (A4)	2020 Customer Growth	(1,224)	(967)	-	1,281	Propose
19	P-3 (A3)	Retirements	492	389	246	(493)	Propose
20	P-3 (A6)	Removal Cost	153	121	76	(153)	Propose
21	P-4	MAOP Deferral Amortization	-	-	-	-	Neutral
22		Pro Forma Results	7,959	6,288	(79,238)	(15,499)	

Natural Gas Revenue Requirement Summary (\$000)

Line	Adj. No.	Description	July 24, 2020 Supplement at AWEC RoR			Staff Data Request 127 at AWEC RoR		
			Net Oper. Income	Rate Base	Rev. Req. Def. / (Suf.)	Net Oper. Income	Rate Base	Rev. Req. Def. / (Suf.)
1		Per Book Results (Y/E Dec. 2018)	20,804	374,226	6,295	\$20,804	374,226	6,295
<i>Restating Adjustments:</i>								
2	R-1	Annualize CRM Adjustment	(2,192)	-	2,904	(2,192)	-	2,904
3	R-2	Promotional Advertising Adjustment	22	-	(29)	22	-	(29)
4	R-3	Restate Revenue Adjustment	11,264	-	(14,923)	11,264	-	(14,923)
5	R-4	Restate End of Period (EOP) Adj.	(1,620)	21,636	4,104	(812)	21,636	3,034
6	R-5	Restate Wages	(69)	-	91	(69)	-	91
7	R-6	Executive Incentives	972	-	(1,288)	972	-	(1,288)
		Restated Results	29,182	395,863	(2,846)	29,989	395,863	(3,916)
<i>Pro Forma Adjustments:</i>								
8	P-1	Interest Coordination Adjustment	(92)	-	122	(92)	-	122
9	P-2	Pro Forma Wage Adjustment	(1,596)	-	2,115	(1,596)	-	2,115
10	P-3	Pro Forma Plant Additions	(2,791)	64,781	9,558	(1,884)	64,723	8,351
11	P-4	MAOP Deferral Amortization	(731)	-	969	(731)	-	969
12		Pro Forma Results	23,971	460,643	9,918	25,686	460,585	7,641
		Calculated:			14,281			12,004
		Cost of Capital Impacts						
		9.40% ROE	7.091%		(2,765)			(2,764)
		4.54% Debt	6.990%		(616)			(616)
		Capital Structure	6.83%		(983)			(983)
		ROE Impact			(4,363)			(4,363)

Natural Gas Revenue Requirement Summary (\$000)

			Impact of Staff Data Request 127			
<u>Line</u>	<u>Adj. No.</u>	<u>Description</u>	<u>Pre-Tax Net Oper. Income</u>	<u>Net Oper. Income</u>	<u>Rate Base</u>	<u>Rev. Req. Def. / (Suf.)</u>
1		Per Book Results (Y/E Dec. 2018)				
<i>Restating Adjustments:</i>						
2	R-1	Annualize CRM Adjustment	-	-	-	-
3	R-2	Promotional Advertising Adjustment	-	-	-	-
4	R-3	Restate Revenue Adjustment	-	-	-	-
5	R-4	Restate End of Period (EOP) Adj.	1,022	808	-	(1,070)
6	R-5	Restate Wages	-	-	-	-
7	R-6	Executive Incentives	-	-	-	-
Restated Results			1,022	808	-	(1,070)
<i>Pro Forma Adjustments:</i>						
8	P-1	Interest Coordination Adjustment	(0)	(0)	-	0
9	P-2	Pro Forma Wage Adjustment	(0)	(0)	-	0
10	P-3	Pro Forma Plant Additions	1,149	907	(58)	(1,208)
11	P-4	MAOP Deferral Amortization	-	-	-	-
12		Pro Forma Results	2,170	1,715	(58)	(2,277)

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AWEC Proposed
Cascade Results of Operations Summary Sheet
Twelve Months Ended December 31, 2019

SUMMARY SHEET	12/31/2019 Results Per Company Filing	Summary of Adjustments	Test Year Adjusted Total	Requested Revenue Increase	Adjusted Results After Proposed Revenues
	(1)	(2)	(3)	(4)	(5)
Operating Revenues					
1 Natural Gas Sales	221,481,600	15,618,574	237,100,174	(7,858,520)	229,241,653
2 Gas Transportation Revenue	24,094,628	-	24,094,628		24,094,628
3 Other Operating Revenues	1,748,762	-	1,748,762		1,748,762
4 REVENUES	<u>247,324,989</u>	<u>15,618,574</u>	<u>262,943,563</u>	<u>(7,858,520)</u>	<u>255,085,043</u>
Operating Expenses					
5 Nat. Gas/Production Costs	125,165,839	-	125,165,839		125,165,839
6 Revenue Taxes	20,632,283	632,865	21,265,148	(318,427)	20,946,720
7 Production	320,028	3,256	323,284		323,284
8 Distribution	20,414,280	1,371,727	21,786,006		21,786,006
9 Customer Accounts	5,854,251	129,570	5,983,820	(31,590)	5,952,230
10 Customer Service	7,311,469	13,994	7,325,464		7,325,464
11 Sales	5,409	(1,924)	3,485		3,485
12 Administrative and General	18,950,113	(2,124,894)	16,825,219		16,825,219
13 Depreciation & Amortization	24,915,118	765,668	25,680,785		25,680,785
14 Regulatory Debits		-	-		-
15 Taxes Other Than Income	4,176,015	127,089	4,303,103		4,303,103
16 State & Federal Income Taxes	(1,224,200)	3,531,705	2,307,505	(1,576,786)	730,719
17 Total Operating Expenses	<u>226,520,605</u>	<u>4,449,055</u>	<u>230,969,659</u>	<u>(1,926,803)</u>	<u>229,042,856</u>
18 Net Operating Revenues	<u>20,804,385</u>	<u>11,169,519</u>	<u>31,973,904</u>	<u>(5,931,717)</u>	<u>26,042,187</u>
Rate Base					
19 Total Plant in Service	835,867,891	7,118,539	842,986,431		842,986,431
20 Total Accumulated Depreciation	(389,781,048)	(47,653)	(389,828,701)		(389,828,701)
21 Customer Adv. For Construction	(3,800,413)	-	(3,800,413)		(3,800,413)
22 Deferred Accumulated Income Taxes	(75,625,050)	49,723	(75,575,327)		(75,575,327)
23 Working Capital Allowance	7,565,011	-	7,565,011		7,565,011
24 TOTAL RATE BASE	<u>374,226,392</u>	<u>7,120,609</u>	<u>381,347,000</u>	<u>-</u>	<u>381,347,000</u>
25 Rate of Return	0		0		0

**AWEC Proposed
Revenue Requirement Calculation
12 Months ended December 31, 2019**

1 Adjusted Rate Base	\$381,347,000
2 Rate of Return	<u>6.83%</u>
3 Required Return (ln 1 x ln 2)	\$26,042,187
4 Adjusted Net Income	<u>\$31,973,904</u>
5 Required Net Income Increase (ln 3 - ln 4)	-\$5,931,717
6 Conversion Factor	<u>0.75481</u>
7 Revenue Increase Required (ln 5 / ln 6)	<u>-\$7,858,520</u>
8 Test Year Adjusted Revenue	\$262,943,563
9 Overall Revenue Increase	-2.989%

**AWEC Proposed
Proposed Adjustments to Test Year Results
Twelve Months Ended December 31, 2019**

		Oppose	Oppose	Oppose	Oppose	Propose			Oppose			
	Annualize CRM Adjustment R-1	Promotional Advertising Adjustment R-2	Restate Revenue Adjustment R-3	Restate End of Period (EOP) Adj. R-4	Restate Wages R-5	Executive Incentives R-6	Director Fees A10	Interest Coordination Adjustment P-1	Pro Forma Wage Adjustment P-2	Pro Forma Plant Additions P-3	MAOP Deferral Amortization P-4	Total Adjustments
1 Operating Revenues												
2 Natural Gas Sales	(2,904,184)		18,522,758	-						-		15,618,574
3 Gas Transportation Revenue										0		0
4 Other Operating Revenues												0
5 REVENUE	(\$2,904,184)	\$0	\$18,522,758	\$0	\$0	\$0	\$0	\$0	\$0	\$0		\$15,618,574
Operating Expenses												
6 Nat. Gas/Production Costs												\$0
7 Revenue Taxes	(117,678)		750,542	0						0		\$632,865
8 Production					0				3,256			\$3,256
9 Distribution					77,165				368,812		925,750	\$1,371,727
10 Customer Accounts	(11,674.48)		\$74,459	\$0	3,359				63,425	0		\$129,570
11 Customer Service									13,994			\$13,994
12 Sales		(1,977)							53			(\$1,924)
13 Administrative and General		(25,714)			39	(1,980,755)	(175,185)		56,722			(\$2,124,894)
14 Depreciation & Amortization				670,361						95,307		\$765,668
15 Regulatory Debits												\$0
16 Taxes Other Than Income					6,163				38,480	82,446		\$127,089
17 State & Federal Income Taxes	(582,715)	5,815	3,716,529	(140,776)	(18,213)	415,959	36,789	444,448	(114,396)	(37,328)	(194,407)	\$3,531,705
18 Total Operating Expenses	(712,067)	(21,876)	4,541,530	529,585	68,514	(1,564,796)	(138,396)	444,448	430,347	140,425	731,342	\$4,449,055
19 Net Operating Revenues	(\$2,192,117)	\$21,876	\$13,981,227	(\$529,585)	(\$68,514)	\$1,564,796	\$138,396	(\$444,448)	(\$430,347)	(\$140,425)	(\$731,342)	\$11,169,519
Rate Base												
21 Total Plant in Service				0						7,118,539		\$7,118,539
22 Total Accumulated Depreciation				0						(47,653)		(\$47,653)
23 Customer Adv. For Construction				0								\$0
24 Deferred Accumulated Income Taxes				0						49,723		\$49,723
25 Working Capital Allowance				0								\$0
26 TOTAL RATE BASE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$7,120,609		\$7,120,609
27 Revenue Requirement Effect	\$2,904,184	(\$28,983)	(\$18,522,758)	\$701,611	\$90,769	(\$2,073,090)	(\$183,351)	\$588,818	\$570,136	\$830,259	\$968,905	(\$14,153,500)

**AWEC Proposed
Results of Operations Summary Sheet
Twelve Months Ended December 31, 2019**

REVENUE SENSITIVE COSTS	
Revenues	1.00000
Operating Revenue Deductions	
Uncollectible Accounts	0.00402
State B&O Tax	0.03852
UTC Fees	0.00200
Interest expense	
State Taxable Income	0.95546
State Income Tax	0.00000
Federal Taxable Income	0.95546
Federal Income Tax @ 21%	0.20065
Total Income Taxes	0.20065
Total Revenue Sensitive Costs	0.24519
RESULTS OF OPERATIONS SUMMARY SHEET	
Net-to-Gross Factor	0.75481
Combo-State & Federal Income Tax	
State	0.00000
Federal	0.21000
State and Federal Effective Tax Rate	0.21