

**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

TABLE OF CONTENTS

I. INTRODUCTION1

II. SCOPE AND SUMMARY OF TESTIMONY.....2

III. REVENUE REQUIREMENT AND RATE REQUEST PROPOSAL.....2

IV. TEST YEAR RESTATING ADJUSTMENTS5

V. TEST YEAR PRO FORMA ADJUSTMENTS.....8

LIST OF EXHIBITS

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

I. INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. My name is Maryalice C. Gresham and my business address is 8113 West Grandridge
3 Blvd., Kennewick, WA 99336.

4 **Q. By whom are you employed, for how long, and in what capacity?**

5 A. I am employed by Cascade Natural Gas Corporation (“Cascade” or “Company”) as a
6 Regulatory Analyst III. In this capacity, I prepare regulatory reports and rate/tariff
7 filings for regulatory approval, and I provide regulatory and tariff advice and
8 knowledge to others within the Company. I have been with the Company since
9 December 2010.

10 **Q. Please briefly describe your educational background and professional experience.**

11 A. I am a 2009 graduate of Washington State University with a B.A. in Management and
12 Operations. In 2012, I attended the American Gas Association Basic Rates Seminar at
13 the University of Chicago. I have attended other pertinent conferences such as the
14 Annual Staff Subcommittee on Accounting sponsored by the National Association of
15 Regulatory Utility Commissioners (“NARUC”) in 2013 as well as other NARUC-
16 sponsored events.

17 **Q. Have you previously written or presented testimony on behalf of Cascade before
18 the Washington Utilities and Transportation Commission (“Commission”) or any
19 other commission?**

20 A. Yes. I have testified before the Commission on behalf of Cascade in Dockets UG-
21 170929, UG-190210, UG-200568, and before the Public Utility Commission of
22 Oregon in Dockets UG 347 and UG 390.

II. SCOPE AND SUMMARY OF TESTIMONY

1 **Q. What is the purpose of your testimony in this docket?**

2 A. My testimony will address the Company's proposed revenue requirement and explain
3 the supporting calculations and adjustments.

4 **Q. Are you sponsoring any exhibits in this proceeding?**

5 A. Yes, I sponsor the following exhibits:

6 Exh. MCG-2 Results of Operations Summary Sheet

7 Exh. MCG-3 Revenue Requirement Calculation

8 Exh. MCG-4 Conversion Factor Calculation

9 Exh. MCG-5 Summary of Proposed Adjustments to Test Year Results

III. REVENUE REQUIREMENT AND RATE REQUEST PROPOSAL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19 **Q. Please describe Exh. MCG-4.**

20 A. Exh. MCG-4 shows the calculation of the conversion factor, which is applied to net
21 income to produce the revenue requirement. The conversion factor—which is
22 sometimes called a “gross-up” factor—is a standard adjustment that takes into
23 account revenue-sensitive items that change as revenue changes, such as Commission

1 regulatory fees, Washington Business and Operating (“B&O”) tax, and federal
2 income taxes. As shown on line 19, the conversion factor is calculated to be 0.75506.
3 This is the same methodology used to calculate the conversion factor in Cascade’s
4 last rate case, Docket UG-200568.

IV. TEST YEAR RESTATING ADJUSTMENTS

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

7 A. Restating adjustments are made to the test year results of operations in order to
8 annualize known and measurable changes that occurred during the test period.

9 Cascade’s restating adjustments are identified as R-1 through R-9 in Exh. MCG-5,
10 and these restating adjustments are summarized in column (C), “Restating
11 Adjustments”, of Exh. MCG-2.

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

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

20 The “Promotional Advertising Adjustment” (Column R-2) removes
21 advertising costs that promote the Company brand or image, rather than conservation

1 or safety, consistent with WAC 480-90-223. Cascade removed in its entirety the
2 amounts related to advertising booked to FERC accounts 913 and 930.1. This
3 increases net operating income by \$107,863.

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

15 The “Restate Wages Adjustment” (Column R-4) annualizes the test year
16 wages for the 3.0 percent increase approved for union employees on April 1, 2020.
17 The test year only includes the impact of nine months of the April 1, 2020 increase.
18 Therefore, this adjustment is necessary to reflect a full year impact of the union
19 contract. This adjustment is supported by Cascade witness James Kaiser in Exh. JEK-
20 1T. This adjustment reduces net operating income by \$59,453.

21 The “Restate Incentives” adjustment (Column R-5) removes all incentive
22 compensation paid to the Company’s executive group and utilizes a five-year rolling
23 average to normalize non-executive incentive compensation using methodology

1 approved in Docket UG-200568, Order 05. This increases net operating income by
2 \$1,255,708.

3 The “Remove 50% Director Fees” adjustment (Column R-6) removes 50
4 percent of all levels of Director and Officer Liability insurance premiums, resulting in
5 an increase of \$120,684 to net income.

6 The “Remove Supplemental Schedules” adjustment (Column R-7) removes
7 both the revenues and expenses associated with all pass-through rate schedules, such
8 as protected plus excess deferred income tax, unprotected deferred income tax, gas
9 cost, temporary gas cost amortization, decoupling mechanism, cost recovery
10 mechanism, conservation program adjustment, and Washington energy assistance
11 fund program cost recovery. This adjustment is required by Order 05, Docket UG-
12 200268. The result is a decrease in net operating income of \$161,446.

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

18 The “Removal of FP-319072 & FP-319209” adjustment (Column R-9) relates
19 to the Keene Road and Spencer Creek funding projects. The Keene Road project is
20 for a section of pipe that was “gassed up” and therefore placed into service in 2020.
21 But in order to connect the pipe to the system, a regulator station that is scheduled to
22 be complete in 2021 is required. The Spencer Creek project is for a section of pipe
23 that was “gassed up” and therefore placed into service in 2020; however, customers

1 are not projected to be on the system until late 2021. Thus, neither project is used and
2 useful within the test year. This adjustment removes approximately \$3.4 million from
3 rate base, which results in a revenue requirement decrease by \$366,049.

V. TEST YEAR PRO FORMA ADJUSTMENTS

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

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

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

15 A. The "Interest Coordination Adjustment" (Column P-1) revises the booked interest
16 expense, \$11,766,975, by multiplying the pro forma rate base, \$470,565,775, by the
17 weighted average cost of debt, 2.311 percent, to determine the pro forma interest
18 expense, which is \$10,874,775. The pro forma interest is subtracted from the booked
19 interest expense resulting in an adjustment of \$892,200. The interest expense
20 adjustment is then multiplied by the federal tax rate. The rationale of this adjustment
21 is to adjust federal income taxes for the effect of the average debt rate used to

1 calculate the rate of return applied to the proposed rate base shown in Exh. MCG-2,
2 column (H), line 30. This decreases net operating income by \$187,362

3 The “Annualize Revenue Adjustment” (Column P-2) shows the amount
4 required to annualize revenues at current rates. As explained in the Direct Testimony
5 of Company witness Isaac Myhrum, Exh. IDM-1T, revenues have been adjusted to
6 include both the impacts of the rate changes approved effective March 1, 2020, in
7 Docket UG-190210 and for rate changes approved effective July 1, 2021, in Docket
8 UG-200568. The Company first updated the 2020 test year, to reflect a full year of
9 the margin approved in Docket UG-190210. Then, the Company included an
10 adjustment to the test year to reflect the margin rate change effective July 1, 2021,
11 under Docket UG-200568. This adjustment calculates how much total revenue the
12 Company would receive if rates are in place for 12-months in the both the test year
13 and rate year. The result of this adjustment is an increase in net operating income of
14 \$1,062,652.

15 The “Pro Forma Wage Adjustment” (Column P-3) shows the impact of the
16 2021 actual wage increases for non-union and union employees. The 2021 union
17 increase is 3 percent and the 2021 non-union increase is 3.31 percent. Included in the
18 2021 non-union wage increase are increases associated with MDU utilities group and
19 MDU Resources employees that are allocated to Cascade rather than directly
20 assigned. This adjustment is supported by Cascade witness James Kaiser in
21 Exh. JEK-1T. The result is a decrease in net income of \$605,074.

22 The “MAOP Deferral Amortization” adjustment (Column P-4) provides a ten-
23 year amortization of the anticipated deferred balance associated with Cascade’s

1 request for deferred accounting treatment of incremental costs to implement the
2 Maximum Allowable Operating Pressure (“MAOP”) Determination and Validation
3 Plan. The request was submitted to the Commission on April 29, 2016 in Docket PG-
4 150120 and approved in Docket UG-160787. In Cascade’s 2017 general rate case,
5 Docket UG-170929, all parties agreed that Cascade should recover pre-code pipe
6 replacement expenses from customers¹ over a 10-year amortization period, beginning
7 on August 1, 2018.² In Docket UG-190210, Cascade was authorized to begin
8 amortizing over ten years the deferred costs incurred after the previous rate case.
9 Again, in Cascade’s last rate case, Docket UG-200568, Cascade was allowed to
10 amortize over ten years those costs deferred after the previous rate case. As the total
11 deferral amortization is not reflected in the test period, Cascade is proposing to
12 recover only the amount approved in its 2020 general rate case,³ less the amortization
13 booked amounts in 2020. The net operating income effect is a reduction of \$346,111.

14 **Q. Does this conclude your direct testimony?**

15 A. Yes.

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).