

Exhibit No. __ (MCP-1T)
Docket No. UG-19____
Witness: Maryalice C. Peters

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,
Respondent.

DOCKET UG-19_____

**CASCADE NATURAL GAS CORPORATION
DIRECT TESTIMONY OF MARYALICE C. PETERS**

March 29, 2019

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I. INTRODUCTION

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

2 A. My name is Maryalice C. Peters and my business address is 8113 W. Grandridge Blvd.,
3 Kennewick, WA 99336. My present position is Regulatory Analyst III for Cascade
4 Natural Gas Corporation (“Cascade” or “Company”), a wholly-owned subsidiary of
5 Montana Dakota Utilities Resources Group, Inc. (“MDU Resources”).

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

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

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

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

19 I have testified before the Washington Utilities & Transportation Commission
20 (“Commission”) on behalf of Cascade in Docket UG-170929 and before the Public
21 Utility Commission of Oregon in Docket UG 347.

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 revenue requirements and supporting calculations.

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

4 A. Yes. I am sponsoring the following exhibits, which are described in my testimony:

5 Exhibit No. __ (MCP-2) Result of Operations Summary Sheet

6 Exhibit No. __ (MCP-3) Revenue Requirement Calculation

7 Exhibit No. __ (MCP-4) Conversion Factor Calculation

8 Exhibit No. __ (MCP-5) Summary of Proposed Adjustments to Test Year Results

9 Exhibit No. __ (MCP-6) 2019 Plant Additions

III. REVENUE REQUIREMENT AND RATE REQUEST PROPOSAL

10 **Q. Please summarize the results of the proposed revenue requirements for the**
11 **Washington jurisdiction.**

12 A. After taking into account all proposed adjustments, Cascade's current rate of return
13 ("ROR") is 6.39 percent, as shown in Exhibit No. __ (MCP-2). In contrast, the
14 Company's authorized rate of return is 7.31 percent, having been set by the
15 Commission in the Cascade's last general rate case, Docket UG-170929¹. Based on
16 the testimonies of Ms. Ann Bulkley (Return on Equity) and Ms. Tammy Nygard
17 (Capital Structure), Cascade calculates its proposed ROR to be 7.728 percent. I
18 calculate the incremental revenue necessary to achieve an ROR of 7.728 percent to be

¹ *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corporation*, Docket UG-170929, Order 06 at ¶ 59 (July 20, 2018).

1 \$12,708,529. My calculation of the incremental revenue necessary to achieve a 7.728
2 percent ROR is shown in Exhibit No. __ (MCP-2). The calculation of the incremental
3 revenue is also provided in Exhibit No. __ (MCP-3). Expressed as a percentage, the
4 Company's requested increase in base revenue is 5.56 percent.

5 **Q. Please describe the contents of Exhibit No. __ (MCP-2).**

6 A. The figures shown in column (1) are the actual Washington booked figures for the test
7 year, which is the twelve months ended December 31, 2018. The Working Capital
8 allowance on line 23 is a calculation from the Company's actual average of monthly
9 averages balance sheet. Column (2) is the summation of all adjustments, both restating
10 and pro forma, to achieve the pro forma result of operations. Each adjustment that is
11 included in column (2) is identified separately in Exhibit No. __ (MCP-5), and will be
12 described later in my testimony. Column (3) is the sum of columns (1) and (2) and
13 represents the expected result of operations in the rate year absent any rate change.
14 Column (4) identifies the proposed revenue increases and the net income impact of the
15 revenue increase. The proposed revenue increase is also calculated in Exhibit No. __
16 (MCP-3). Column (5) is the result of operations expected during the rate year with
17 proposed rates.

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

19 A. Cascade has selected the twelve months ended December 31, 2018, as the test year.
20 This 12-month period is the most recent complete period for which Cascade has data
21 available to perform its analysis and is most representative of the costs that will be
22 incurred by the Company in the rate year.

1 **Q. Please describe the contents of Exhibit No. __ (MCP-3).**

2 A. Exhibit No. __ (MCP-3) shows the calculation of the proposed revenue increase of
3 \$12,708,529 necessary to achieve the proposed rate of return of 7.728 percent.

4 **Q. Would you please describe Exhibit No. __ (MCP-4)?**

5 A. Exhibit No. __ (MCP-4) shows the calculation of the conversion factor which is applied
6 to the required net income to produce the required revenue increase. The conversion
7 factor takes into account revenue-sensitive items that change as revenue changes,
8 including uncollectibles, Commission fees, Washington Business and Operating
9 (“B&O”) tax, and federal income taxes. The conversion factor is calculated to be
10 0.75554.

11 **Q. Please describe Exhibit No. __ (MCP-5).**

12 A. Exhibit No. __ (MCP-5) shows each of the Company’s proposed adjustments,
13 culminating in the total column shown in column (2) in Exhibit No.__(MCP-2). The
14 Company is proposing six restating adjustments and four pro forma adjustments.

15 **Q. Can you please briefly provide a definition of restating and pro forma
16 adjustments?**

17 A. Yes. A restating adjustment is an adjustment to the actual booked operating results to
18 a basis acceptable for ratemaking. A pro forma adjustment is a known and measurable
19 change beyond the test year that is not offset by other factors.

20 Cascade’s six restating adjustments are identified as R-1 through R-6 in Exhibit
21 No. __ (MCP-5). The Company’s four pro forma adjustments are also identified in
22 Exhibit No. __ (MCP-5) and marked as P-1 through P-4.

1 **Q. Would you describe each of the adjustments included in Exhibit No. __ (MCP-5)?**

2 A. Yes. The first column, column (R-1), entitled “Annualize CRM Adjustment,” is an
3 adjustment to the total annualized revenues attributed to Cascade’s pipeline
4 replacement cost recovery mechanism (“CRM”) and recovered from rate schedules
5 503, 504, 505, 511, 570 and 663, as shown in Mr. Isaac D. Myhrum’s Exhibit No. __
6 (IDM-2). This adjustment is described by Mr. Myhrum in his Exhibit No. __ (IDM-
7 1T). The result is an increase to net operating income of \$517,053.

8 **Q. Continue with the description of the adjustments in Exhibit No. __ (MCP-5).**

9 A. Column (R-2), entitled “Promotional Advertising Adjustment” removes advertising
10 costs directed at promoting the Company brand or image rather than conservation or
11 safety, consistent with WAC 480-90-223. Cascade removed in its entirety the amounts
12 booked to FERC accounts 913 and 930.1. The result is an increase in net income of
13 \$18,945.

14 Column (R-3), entitled “Restate Revenue Adjustment” is the amount required
15 to annualize revenues at current rates. This adjustment is also described in Mr.
16 Myhrum’s Exhibit No. __ (IDM-1T). The result of this adjustment is an increase in net
17 income of \$2,065,482.

18 Column (R-4), entitled “Restate End of Period (EOP) Adj.,” is supported by
19 Cascade witnesses Mr. Parvinen and Mr. Myhrum, who describe the proposed
20 adjustment in Exhibit No. __ (MPP-1T) and Exhibit No. __ (IDM-1T). The result of this
21 adjustment is a decrease in net income of \$664,455.

1 Column (R-5), entitled “Restate Wages,” describes annualized wage increases
2 for union employees for 2019. This adjustment reduces net operating income by
3 \$66,583.

4 Column (R-6), entitled “Executive Incentives,” removes all incentive
5 compensation paid to the Company’s executive group. The result is an increase in net
6 income of \$706,568.

7 Column (P-1), entitled “Interest Coordination Adjustment,” adjusts federal
8 income taxes for the effect of the average debt rate used to calculate the rate of return
9 applied to the proposed rate base shown in Exhibit No MCP-2, column (5), line 24.
10 The result is an increase in net income of \$285,943.

11 Column (P-2), entitled “Pro Forma Wage Adjustment,” has four components.
12 The first component is the annualization of the 2018 increase effective April 1, 2018
13 for union employees. The second component layers on the 2019 actual wage increases
14 for non-union and union employees. The third component adds in the 2020 estimated
15 increases for the union and non-union employees. The non-union increase is estimated
16 to be 4 percent, the same level granted in 2018. However, the actual increase will not
17 be known until sometime in December 2019. The Company intends to update the
18 calculation to reflect the actual non-union increase awarded at a later date. The 2019
19 union increase is 3 percent, the same as 2018.

20 The fourth component is a reflection of the 2019 and 2020 wage increase
21 associated with employees that are allocated to Cascade rather than directly assigned.
22 In general, all non-union employees receive the same level of increases as approved by
23 the Board of Directors. The result is a decrease in net income of \$1,265,069.

1 Column (P-3), entitled “Pro Forma Plant Additions,” reflects the Company’s
2 budgeted capital additions expected to go into service by December 31, 2019. The
3 proposed projects are limited to those projects that are non-revenue producing and will
4 not be included in the Company’s 2019 annual CRM filing. Exhibit No. ____ (MCP-
5 6) identifies each project, the proposed in-service date, most current proposed budget
6 amount, and most importantly an explanation on the investment. These are non-
7 revenue producing upgrades that have no material offsetting factors except for one
8 project. As the cost and timing of these projects are budgeted and estimated at this
9 point, Cascade will update the actual costs and standing of each project as the case
10 proceeds. The Company’s intent is to add into rate base only those projects that will
11 be used and useful by the time rates from the current proceeding go into effect.

12 **Q. Are Cascade’s pro forma capital additions consistent with the Commission’s**
13 **guidelines set forth in Docket No. UE-140762?**

14 A. Yes. In Docket No. UE-140762, the Commission reaffirmed that its “long-standing
15 practice is to consider post-test-year capital additions on a case-by-case basis following
16 the used and useful and known and measurable standards while exercising the
17 considerable discretion these standards allow in the context of individual cases.”² The
18 Commission elaborated:

19 The known and measurable test requires that an event that causes a change in
20 revenue, expense or rate base must be known to have occurred during, or
21 reasonably soon after, the historical 12 months of actual result of operations,

² *Wash. Utils. & Transp. Comm’n v. Pac. Power*, Docket UE-140762, *et al.*, Order 08, ¶165 (Mar. 25, 2015).

1 and the effect of that event will be in place during the 12-month period when
2 rates will likely be in effect. Furthermore, the actual amount of the change must
3 be measurable. This means the amount typically cannot be an estimate, a
4 projection, the product of a budget forecast, or some similar exercise of
5 judgment – even informed judgment – concerning future revenue, expense or
6 rate base.³

7 Cascade expects that its pro forma capital additions will be placed in service
8 and used and useful during the suspension period, and anticipates that costs will
9 become known and measurable over the course of this proceeding. Although Cascade
10 is including estimates for the pro forma capital additions in this initial filing, Cascade
11 intends to provide actual costs for all completed and in-service projects in its rebuttal
12 filing. Additionally, Cascade has included supporting justification for each project
13 included in the 2019 Pro Forma Plant Addition adjustment. The supporting
14 documentation is included in Exhibit No. ____ (MCP-6).

15 **Q. What is the impact of the Pro Forma Plant Adjustment?**

16 A. The net income effect of the rate base additions, ~~for~~ depreciation expense, property
17 taxes, and an offsetting revenue increase is a decrease of \$825,347. The rate base
18 impact is an increase of \$32,408,680.

19 **Q. Please continue with the description of the columns included in Exhibit No. ____**
20 **(MCP-5), starting with MAOP Deferral Amortization included in Column (P-4).**

³ *Id.* at ¶167 (internal citations omitted).

1 A. Column (P-4), entitled “MAOP Deferral Amortization,” provides a ten-year
2 amortization of the anticipated deferred balance associated with the approval in Docket
3 No. UG-160787 of Cascade’s request for deferred accounting treatment of incremental
4 costs to implement the Maximum Allowable Operating Pressure (“MAOP”)
5 Determination and Validation Plan submitted to the Commission on April 29, 2016,
6 under Docket No. PG-150120. In the last general rate case, Docket UG-170929, all
7 parties agreed to let Cascade recover pre-code pipe replacement expenses from
8 ratepayers⁴ over a 10-year amortization period,⁵ beginning on August 1, 2018. The
9 deferred balance is anticipated to be \$10,855,097. The net income effect is a reduction
10 of \$679,045.

11 **Q. Please describe Exhibit No. __ (MCP-6).**

12 A. Exhibit No. __ (MCP-6) identifies each project included in the Company’s proposed
13 pro forma adjustment for projects completed after the test year. The intent of the
14 analysis is to comply with the Commission’s previous guidance regarding the
15 parameters for the inclusion in rate base of pro forma adjustments based on the most
16 recent updated capital budget. The first column (A) identifies the function. The second
17 column (B) identifies the funding project number and name. The third column (C)
18 identifies the primary FERC account number for the project. The fourth column (D)
19 identifies the most up to date expected cost of the project. The sixth column (F)
20 identifies the Washington portion of the project. The seventh column (G) identifies the
21 amount included in the current request for recovery. The eighth column (H) identifies

⁴ *Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corporation*, Docket UG-170929, Partial Joint Settlement Agreement at ¶ 20 (May 17, 2018).

⁵ *Id.* at 22

1 the footnote which provides the support for inclusion or exclusion in the current request
2 for recovery. Finally, the last column (I) identifies the expected in-service date.

3 **Q. Please explain where the justification or support for including each project is**
4 **included in Exhibit No. ____ (MCP-6).**

5 A. The support or identified benefit of adding each project is included on Page 3 of the
6 exhibit.

7 **Q. Does this conclude your testimony?**

8 A. Yes it does.