BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,
Complainant, DOCKET UG-200568

v.

CASCADE NATURAL GAS CORPORATION,
Respondent.

CASCADE NATURAL GAS CORPORATION
REBUTTAL TESTIMONY OF MARYALICE C. GRESHAM

January 8, 2021
# TABLE OF CONTENTS

I. INTRODUCTION ........................................................................................................2
II. SCOPE AND SUMMARY OF TESTIMONY ............................................................2
III. UPDATED REVENUE REQUIREMENT PROPOSAL ..............................................2
   A. Incentive Compensation Correction .................................................................5
   B. Depreciation Rate and Tax Formula Correction ...............................................5
   C. MAOP Deferral Amortization Correction .........................................................6
   D. Directors’ Fees .................................................................................................6
   E. Staff Test Year Audit Expenses Adjustment .....................................................7
IV. OTHER ISSUES ....................................................................................................7
V. EXHIBITS .............................................................................................................8
I. INTRODUCTION

Q. Have you previously filed direct testimony as Maryalice C. Peters in Exhibit MCP-1T as part of Cascade Natural Gas Corporation’s (“Cascade” or the “Company”) initial filing (“Initial Filing”) and supplemental testimony in Exhibit MCP-7T?
A. Yes. Since these filings, my name has changed to Maryalice C. Gresham.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your Rebuttal Testimony?
A. The purpose of my testimony is to provide a summary of the changes and updates made in the Company’s Rebuttal Filing, and to describe the impacts of these changes and updates on the Company’s proposed revenue requirement.

Q. Are you sponsoring any exhibits in this proceeding?
A. Yes. I am sponsoring the following exhibits, which are described later in my testimony:

- Exhibit No. __ (MCG-12) Results of Operations Summary Sheet
- Exhibit No. __ (MCG-13) Revenue Requirement Calculation
- Exhibit No. __ (MCG-14) Summary of Proposed Adjustments to Test Year Results
- Exhibit No. __ (MCG-15) 2020 Plant Additions

III. UPDATED REVENUE REQUIREMENT PROPOSAL

Q. Did Cascade previously identify corrections to the revenue requirement request after the Company’s Initial Filing?
A. Yes. On July 27, 2020, the Company supplemented its initial filing to correct a metering error, which would have increased the Company’s costs. These corrections

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1 At Staff’s request, the Company also clarified that its revenue requirement request proposes an end-
and updates increased the Company’s revenue requirement request from approximately $13.8 million to $14.3 million.

Q. What is Cascade’s updated revenue requirement request in this case, as reflected in the Company’s Rebuttal Filing?

A. The corrections and adjustments in Cascade’s Rebuttal Filing reduce the Company’s revenue requirement request in this case from approximately $14.3 million to $7.4 million. Changes to the proposed revenue requirement are shown in the chart below, showing the revenue requirement effect of each of the Company’s corrections and adjustments that are part of Cascade’s Rebuttal Filing.

of-period (“EOP”) rate base, and called this out as a separate adjustment to the average of monthly averages (“AMA”) approach.
Table 1: Rebuttal Revenue Requirement

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Nygard, TJN-4T</td>
<td>Cost of Capital – Long-Term Debt 4.589% Adjustment</td>
<td>($371,183)</td>
</tr>
<tr>
<td>Kivisto, NAK-2T, Bulkley, AEB-14T</td>
<td>Cost of Capital – Return on Equity 9.8% Adjustment</td>
<td>($1,537,697)</td>
</tr>
<tr>
<td>Kaiser, JEK-1CT</td>
<td>Wage Adjustment (3.55% non-union 2020, 3% non-union &amp; 0% union 2021)</td>
<td>($627,695)</td>
</tr>
<tr>
<td>Gresham, MCG-11T</td>
<td>Incentive Compensation Correction</td>
<td>$70,910</td>
</tr>
<tr>
<td>Darras, PCD-3T</td>
<td>Blanket Projects Adjustment</td>
<td>($633,190)</td>
</tr>
<tr>
<td>Darras, PCD-3T</td>
<td>Plant Additions Adjustment</td>
<td>($498,220)</td>
</tr>
<tr>
<td>Parvinen, MPP-2T</td>
<td>Removal and Retirement Adjustment</td>
<td>($157,055)</td>
</tr>
<tr>
<td>Gresham, MCG-11T</td>
<td>Revised Depreciation Rates (UG-200278) &amp; Tax Formula Correction (DR-127)</td>
<td>($2,277,729)</td>
</tr>
<tr>
<td>Myhrum, IDM-11T</td>
<td>2020 Actual Customer Count Adjustment</td>
<td>($87,323)</td>
</tr>
<tr>
<td>Gresham, MCG-11T</td>
<td>Maximum Allowable Operating Pressure (“MAOP”) Deferral Amortization Correction</td>
<td>($131,189)</td>
</tr>
<tr>
<td>Gresham, MCG-11T</td>
<td>Directors’ Fees Adjustment</td>
<td>($183,352)</td>
</tr>
<tr>
<td>Gresham, MCG-11T</td>
<td>Staff Test Year Expense Audit Adjustment</td>
<td>($47,961)</td>
</tr>
<tr>
<td>Parvinen, MPP-2T</td>
<td>Remove Provision for Rate Refund of Excess Deferred Income Taxes (“EDIT”) Correction</td>
<td>($406,245)</td>
</tr>
</tbody>
</table>

**Total Rebuttal Revenue Requirement**: $7,393,210

Q. Which of the above corrections and adjustments will you discuss?

A. As identified in the table above, I will discuss (a) the incentive compensation correction, (b) the revised depreciation rate and tax formula correction, (c) the MAOP correction.
deferral amortization correction, (d) the Directors’ fees adjustment, and (e) the Staff Test Year expense audit adjustment. The remaining adjustments are discussed in the rebuttal testimony of other Company witnesses, as outlined in the first column of Table 1.

A. Incentive Compensation Correction

Q. Please explain the correction for incentive compensation.

A. In the process of preparing a response to Public Counsel’s Data Request 43, we identified a classification error, where $67,752.15 was incorrectly classified as within the MDU Executive Incentive Plan, but was in fact part of the MDU Employee Incentive Plan. Cascade made this classification error clear in its response to Public Counsel’s Data Request 43, as noted by Public Counsel witness Mr. Mark E. Garrett. This correction reduces the Company’s adjustment removing executive compensation from rates, and results in a minor increase in the Company’s revenue requirement for employee incentive compensation of $70,910.

B. Depreciation Rate and Tax Formula Correction

Q. Please explain the correction for depreciation rate and tax formula.

A. This adjustment conforms the Company’s revenue requirement proposal with the Commission’s recent order in UG-200278, which establishes revised plant depreciation rates. In the process of preparing a response to Staff’s Data Request 127, we identified a tax formula error that incorrectly applied an order of operations calculation, which

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3 Public Counsel Response Testimony of Mark E. Garrett, Exh. MEG-1T at 16.
4 In the Matter of Cascade Natural Gas Corp. Petition for an Accounting Order Authorizing Revision to Depreciation Rates, Docket UG-200278, Order 01, Attachment 1 (Dec. 10, 2020) (showing revised depreciation rates).
we then corrected. Cascade made this update clear in its response to Staff’s Data Request 127. The combination of these two adjustments—the revised depreciation rates and correcting the tax formula error—result in a $2,277,729 decrease in revenue requirement.

C. MAOP Deferral Amortization Correction

Q. Please explain the correction for the MAOP deferral amortization.
A. Staff witness Amy I. White identified an error in Cascade’s amortization calculation, which mistakenly assumed the same end date for all MAOP investments (rather than using a uniform amortization rate).

Q. Does Cascade agree with Staff’s correction?
A. Yes. Cascade was using a nine-year amortization for the most recent MAOP investments and should have been amortizing them using a ten-year amortization as per Order 06 in Docket UG-170929.6

Q. What effect does MAOP adjustment have on the revenue requirement?
A. The MAOP deferral amortization adjustment increases the expense by $800,404 and decreases the net operating income after tax by $632,320.7 This adjustment decreases the Company’s revenue requirement by $131,189.

D. Directors’ Fees Adjustment

Q. Public Counsel proposes a 50/50 sharing of Directors’ fees,8 and AWEC joins this

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5 Staff Testimony of Amy I. White, Exh. AIW-1T at 4.
7 Gresham, Exh. MCG-14, (P-4).
8 Garrett, Exh. MEG-1T at 21.
recommendation.\(^9\) Does Cascade accept this proposed adjustment?

A. Yes. Cascade accepts the proposal to share Directors’ fees on a 50/50 basis. This adjustment decreases expenses by $175,185 and decreases the Company’s revenue requirement by $183,352.

E. Staff Test Year Expense Audit Adjustment

Q. Staff witness Ms. Kristen Hillstead identified three adjustments to the Company’s revenue requirement stemming from a per-book audit of the Company’s Test Year expenses.\(^{10}\) Please summarize Staff’s adjustments.

A. Staff identifies a misallocation where an expense should have been directly assigned to Oregon, an employee benefit as an unrecoverable “sponsorship” expense, and certain minor costs that Staff deems inappropriate to recover from ratepayers (such as cards for birthdays and retirement parties). This adjustment decreases net operating income after tax by $36,202.

Q. Does the Company accept Staff’s adjustment?

A. Yes. Cascade is willing to accept Staff’s adjustment in the interest of limiting the number of contested issues in this case. This adjustment reduces the Company’s revenue requirement request by $47,961. Cascade appreciates that its efforts to maintain clean and relatively error-free books have yielded very few proposed corrections from Staff’s audit.

IV. OTHER ISSUES

Q. Staff proposes to remove the 2020 EOP customer adjustment from the revenue

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\(^9\) AWEC Response Testimony of Bradley G. Mullins, Exh. BGM-1T at 40.
\(^{10}\) Staff Testimony of Kristen M. Hillstead, Exh. KMH-1T at 10.
requirement calculation and to use the 2019 EOP customer count instead.\(^{11}\) Does Cascade accept this adjustment?

A. No—unless the Commission also accepts Staff’s adjustment to exclude the bulk of the Company’s 2020 capital projects. Staff’s adjustment to use the 2019 EOP customer count assumes that the 2020 revenue-producing plant placed in service during 2020 is excluded from rates. While Cascade agrees that the measure of customers should align with the measure of revenue-producing plant in service, Cascade believes that it is appropriate to include additional plant placed in service through 2020, and accordingly supports using the 2020 EOP customer count. Please see the Rebuttal Testimony of Michael Parvinen, Exhibit No. __ (MPP-2T), for further discussion of the appropriateness of including the Company’s 2020 pro forma projects, including additional revenue-producing plant, in rates.

V. EXHIBITS

Q. Please describe the contents of Exhibit No. __ (MCG-12).

A. Exhibit No. __ (MCG-12) presents an updated summary of the Company’s revenue requirement request in this case. To aid review, I briefly describe the columns in this workbook below.

- Column (1) shows the actual Washington booked figures for the calendar 2019 test year. The Working Capital figure on line 23 is a calculation from the Company’s actual AMA balance sheet.
- Column (2) is the summation of all adjustments, both restating and pro forma, to achieve the pro forma results of operations. Each adjustment that is included in column (2) is identified separately in Exhibit No. __ (MCG-14) and will be described later in my testimony.

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\(^{11}\) Staff Testimony of Aimee N. Higby, Exh. ANH-1T at 5.
Column (3) is the sum of columns (1) and (2) and represents the expected results of operations in the rate year absent any rate change.

Column (4) identifies the proposed revenue change and the net income impact of the revenue increase. The proposed revenue increase is also calculated in Exhibit No. __ (MCG-13).

Column (5) is the results of operations expected during the rate year with proposed rates.

Q. Please describe Exhibit No. __ (MCG-13).

A. Exhibit No. __ (MCG-13) presents a detailed calculation of the proposed revenue increase of $7,393,210 or 2.821 percent, necessary to achieve the proposed rate of return of 7.215 percent.

Q. Please describe Exhibit No. __ (MCG-14).

A. Exhibit No. __(MCG-14) shows each of the Company’s proposed adjustments, culminating in the total dollar value change—which is also shown in column (2) of Exhibit No. __ (MCG-12). The cells highlighted in orange are those adjustments made by the Company in its Rebuttal Filing.

Q. Please continue with your next exhibit, Exhibit No.__ (MCG-15).

A. Exhibit No. __ (MCG-15) is an update of Exhibit No. MCP-6, and contains the updated plant additions expense for inclusion in this case based on 2020 actual expense. In the Company’s direct case, Cascade proposed updating the Plant Addition adjustment to include only actual projects in service by the end of 2020, for which the costs are known and measurable. Patrick C. Darras, Exhibit No. __ (PCD-3T), addresses the details of these projects, and Michael Parvinen, Exhibit No. __ (MPP-2T), addresses the policy-related adjustments concerning these projects proposed by Staff, Public Counsel, and
Q. Does this conclude your Rebuttal Testimony?

A. Yes.