

**Exhibit No. \_\_ (MCG-11T)**  
**Docket No. UG-200568**  
**Witness: Maryalice C. Gresham**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,  
Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION,  
Respondent.

DOCKET UG-200568

**CASCADE NATURAL GAS CORPORATION  
REBUTTAL TESTIMONY OF MARYALICE C. GRESHAM**

**January 8, 2021**

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## I. INTRODUCTION

1 **Q. Have you previously filed direct testimony as Maryalice C. Peters in Exhibit MCP-**  
2 **1T as part of Cascade Natural Gas Corporation’s (“Cascade” or the “Company”)**  
3 **initial filing (“Initial Filing”) and supplemental testimony in Exhibit MCP-7T?**

4 A. Yes. Since these filings, my name has changed to Maryalice C. Gresham.

## II. SCOPE AND SUMMARY OF TESTIMONY

5 **Q. What is the purpose of your Rebuttal Testimony?**

6 A. The purpose of my testimony is to provide a summary of the changes and updates made  
7 in the Company’s Rebuttal Filing, and to describe the impacts of these changes and  
8 updates on the Company’s proposed revenue requirement.

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

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

11 Exhibit No. \_\_ (MCG-12) Results of Operations Summary Sheet

12 Exhibit No. \_\_ (MCG-13) Revenue Requirement Calculation

13 Exhibit No. \_\_ (MCG-14) Summary of Proposed Adjustments to Test Year Results

14 Exhibit No. \_\_ (MCG-15) 2020 Plant Additions

## III. UPDATED REVENUE REQUIREMENT PROPOSAL

15 **Q. Did Cascade previously identify corrections to the revenue requirement request**  
16 **after the Company’s Initial Filing?**

17 A. Yes. On July 27, 2020, the Company supplemented its initial filing to correct a  
18 metering error, which would have increased the Company’s costs.<sup>1</sup> These corrections

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<sup>1</sup> At Staff’s request, the Company also clarified that its revenue requirement request proposes an end-

1 and updates increased the Company’s revenue requirement request from approximately  
2 \$13.8 million to \$14.3 million.

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

5 A. The corrections and adjustments in Cascade’s Rebuttal Filing reduce the Company’s  
6 revenue requirement request in this case from approximately \$14.3 million to  
7 \$7.4 million. Changes to the proposed revenue requirement are shown in the chart  
8 below, showing the revenue requirement effect of each of the Company’s corrections  
9 and adjustments that are part of Cascade’s Rebuttal Filing.

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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<sup>2</sup>**

<b>Witness Exh.</b>	<b>Adjustment/Correction</b>	<b>Rev. Req.</b>
	Revised Initial Filing	\$14,281,139
Nygaard, TJN-4T	Cost of Capital – Long-Term Debt 4.589% Adjustment	(\$371,183)
Kivisto, NAK-2T, Bulkley, AEB-14T	Cost of Capital – Return on Equity 9.8% Adjustment	(\$1,537,697)
Kaiser, JEK-1CT	Wage Adjustment (3.55% non-union 2020, 3% non-union & 0% union 2021)	(\$627,695)
Gresham, MCG-11T	Incentive Compensation Correction	\$70,910
Darras, PCD-3T	Blanket Projects Adjustment	(\$633,190)
Darras, PCD-3T	Plant Additions Adjustment	(\$498,220)
Parvinen, MPP-2T	Removal and Retirement Adjustment	(\$157,055)
Gresham, MCG-11T	Revised Depreciation Rates (UG-200278) & Tax Formula Correction (DR-127)	(\$2,277,729)
Myhrum, IDM-11T	2020 Actual Customer Count Adjustment	(\$87,323)
Gresham, MCG-11T	Maximum Allowable Operating Pressure ("MAOP") Deferral Amortization Correction	(\$131,189)
Gresham, MCG-11T	Directors' Fees Adjustment	(\$183,352)
Gresham, MCG-11T	Staff Test Year Expense Audit Adjustment	(\$47,961)
Parvinen, MPP-2T	Remove Provision for Rate Refund of Excess Deferred Income Taxes ("EDIT") Correction	(\$406,245)
	<b>Total Rebuttal Revenue Requirement</b>	<b>\$7,393,210</b>

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

3 A. As identified in the table above, I will discuss (a) the incentive compensation  
4 correction, (b) the revised depreciation rate and tax formula correction, (c) the MAOP

<sup>2</sup> The following figures are sourced from Gresham, Exh. MCG-13 and Gresham, Exh. MCG-14, described below.

1 deferral amortization correction, (d) the Directors' fees adjustment, and (e) the Staff  
2 Test Year expense audit adjustment. The remaining adjustments are discussed in the  
3 rebuttal testimony of other Company witnesses, as outlined in the first column of  
4 Table 1.

5 **A. Incentive Compensation Correction**

6 **Q. Please explain the correction for incentive compensation.**

7 A. In the process of preparing a response to Public Counsel's Data Request 43, we  
8 identified a classification error, where \$67,752.15 was incorrectly classified as within  
9 the MDU Executive Incentive Plan, but was in fact part of the MDU Employee  
10 Incentive Plan. Cascade made this classification error clear in its response to Public  
11 Counsel's Data Request 43, as noted by Public Counsel witness Mr. Mark E. Garrett.<sup>3</sup>  
12 This correction reduces the Company's adjustment removing executive compensation  
13 from rates, and results in a minor increase in the Company's revenue requirement for  
14 employee incentive compensation of \$70,910.

15 **B. Depreciation Rate and Tax Formula Correction**

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

17 A. This adjustment conforms the Company's revenue requirement proposal with the  
18 Commission's recent order in UG-200278, which establishes revised plant depreciation  
19 rates.<sup>4</sup> In the process of preparing a response to Staff's Data Request 127, we identified  
20 a tax formula error that incorrectly applied an order of operations calculation, which

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<sup>3</sup> Public Counsel Response Testimony of Mark E. Garrett, Exh. MEG-1T at 16.

<sup>4</sup> *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).

1 we then corrected. Cascade made this update clear in its response to Staff's Data  
2 Request 127. The combination of these two adjustments—the revised depreciation  
3 rates and correcting the tax formula error—result in a \$2,277,729 decrease in revenue  
4 requirement.

5 **C. MAOP Deferral Amortization Correction**

6 **Q. Please explain the correction for the MAOP deferral amortization.**

7 A. Staff witness Amy I. White identified an error<sup>5</sup> in Cascade's amortization calculation,  
8 which mistakenly assumed the same end date for all MAOP investments (rather than  
9 using a uniform amortization rate).

10 **Q. Does Cascade agree with Staff's correction?**

11 A. Yes. Cascade was using a nine-year amortization for the most recent MAOP  
12 investments and should have been amortizing them using a ten-year amortization as  
13 per Order 06 in Docket UG-170929.<sup>6</sup>

14 **Q. What effect does MAOP adjustment have on the revenue requirement?**

15 A. The MAOP deferral amortization adjustment increases the expense by \$800,404 and  
16 decreases the net operating income after tax by \$632,320.<sup>7</sup> This adjustment decreases  
17 the Company's revenue requirement by \$131,189.

18 **D. Directors' Fees Adjustment**

19 **Q. Public Counsel proposes a 50/50 sharing of Directors' fees,<sup>8</sup> and AWEC joins this**

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<sup>5</sup> Staff Testimony of Amy I. White, Exh. AIW-1T at 4.

<sup>6</sup> *Washington Utilities & Transportation Commission v. Cascade Natural Gas Corp.*, Docket UG-170929, Order 06 at ¶ 61 (July 20, 2018) (2017 Cascade GRC Order).

<sup>7</sup> Gresham, Exh. MCG-14, (P-4).

<sup>8</sup> Garrett, Exh. MEG-1T at 21.

1 **recommendation.<sup>9</sup> Does Cascade accept this proposed adjustment?**

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

5 **E. Staff Test Year Expense Audit Adjustment**

6 **Q. Staff witness Ms. Kristen Hillstead identified three adjustments to the Company's**  
7 **revenue requirement stemming from a per-book audit of the Company's Test**  
8 **Year expenses.<sup>10</sup> Please summarize Staff's adjustments.**

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

14 **Q. Does the Company accept Staff's adjustment?**

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

**IV. OTHER ISSUES**

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

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<sup>9</sup> AWEC Response Testimony of Bradley G. Mullins, Exh. BGM-1T at 40.

<sup>10</sup> Staff Testimony of Kristen M. Hillstead, Exh. KMH-1T at 10.



1           **requirement calculation and to use the 2019 EOP customer count instead.<sup>11</sup> Does**  
2           **Cascade accept this adjustment?**

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

## V.    EXHIBITS

13   **Q.    Please describe the contents of Exhibit No. \_\_ (MCG-12).**

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

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

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<sup>11</sup> Staff Testimony of Aimee N. Higby, Exh. ANH-1T at 5.

- 1 • Column (3) is the sum of columns (1) and (2) and represents the expected results  
2 of operations in the rate year absent any rate change.
- 3
- 4 • Column (4) identifies the proposed revenue change and the net income impact of  
5 the revenue increase. The proposed revenue increase is also calculated in Exhibit  
6 No. \_\_ (MCG-13).
- 7
- 8 • Column (5) is the results of operations expected during the rate year with proposed  
9 rates.

10  
11 **Q. Please describe Exhibit No. \_\_ (MCG-13).**

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

15 **Q. Please describe Exhibit No. \_\_ (MCG-14).**

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

20 **Q. Please continue with your next exhibit, Exhibit No. \_\_ (MCG-15).**

21 A. Exhibit No. \_\_ (MCG-15) is an update of Exhibit No. MCP-6, and contains the updated  
22 plant additions expense for inclusion in this case based on 2020 actual expense. In the  
23 Company's direct case, Cascade proposed updating the Plant Addition adjustment to  
24 include only actual projects in service by the end of 2020, for which the costs are known  
25 and measurable. Patrick C. Darras, Exhibit No. \_\_ (PCD-3T), addresses the details of  
26 these projects, and Michael Parvinen, Exhibit No. \_\_ (MPP-2T), addresses the policy-  
27 related adjustments concerning these projects proposed by Staff, Public Counsel, and

1 AWEC.

2 **Q. Does this conclude your Rebuttal Testimony?**

3 A. Yes.