Exh. KMH-1Tr
Docket UG-170929
Witness: Kristen M. Hillstead

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADE NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET UG-170929**

TESTIMONY OF

Kristen M. Hillstead

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Revenue Requirement
Adjustment UTC-1 Incentive Pay
Adjustment UTC-2 SISP/SERP Expense
Adjustment P-1 Interest Coordination
Adjustment UTC-6 Restate Wage Increase
Adjustment P-2 Pro Forma Wage Increase

February 15, 2018

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kristen M. Hillstead, and my business address is the Richard Hemstad Building, 1300 S Evergreen Park Drive SW, P.O. Box 47250, Olympia, Washington, 98504. My business e-mail address is kristen.hillstead@utc.wa.gov.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst in the Energy Section of the Regulatory Services Division.

Q. What are your educational and professional qualifications?

A. I graduated from The Evergreen State College in 1994 with a Bachelor of Arts degree, with an emphasis in accounting.

I began with the Commission in 1990 working in the Transportation Section and then transferred to the Financial Services section in 1993. In September of 1999, I took a position as a Regulatory Analyst with the Commission's Telecommunications Section where I worked on various telecommunications-related issues. In July of 2013 I transferred to the Energy Section.

Q. Have you previously filed testimony before this Commission?

A. Yes. I filed testimony in the following cases: Docket UT-040788, Verizon Northwest Inc.'s general rate case, Docket UT-061625, Qwest Corporation's petition for an alternative form of regulation, Docket UT-090842, Verizon/Frontier transfer of control, and Docket UT-100820, Qwest Communications International Inc., and CenturyTel, Inc.'s joint application for approval of indirect transfer of control.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. My testimony will address the following issues and adjustments:

- Revenue Requirement
- Conversion Factor
- Adjustment UTC-1 Restating Incentive Pay Expense
- Adjustment UTC-2 Restating SISP/SERP Expense
- Adjustment P-1 Pro Forma Interest Coordination
- Adjustment UTC-6 Restating Wage Increase
- Adjustment P-2 Pro Forma Wage Increase Expense
- Allocation Factors

III. REVENUE REQUIREMENT

Q. What is a conversion factor?

A. A conversion factor is a number that, by multiplication or division, translates one unit or value into another.

For utility rate making purposes, a conversion factor is applied to a utility's net income to produce the revenue requirement. In other words, for the utility to receive the necessary amount of revenues to provide a sufficient return on rate base plus the costs of doing business, the incremental net operating income (NOI) must also recover the taxes on that revenue. This is accomplished by dividing the NOI by the conversion factor. This conversion factor, which is unique to each utility, takes into account factors such as uncollectible account costs, Commission regulatory fees, federal income tax, and the state public utility tax.[1]

Q. Did Cascade calculate a conversion factor for its general rate case?

A. Yes. When the Company filed its general rate case on August 31, 2017, the Company accurately calculated its conversion factor to be 0.62120.

Q. Has anything changed that alters the calculation of the conversion factor?

A. Yes. Congress enacted The Tax Cut and Jobs Act (TCJA), which the President signed into law on December 22, 2017. The TCJA amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions. Relevant to

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[1] These components are known as revenue-related taxes. The Company refers to the public utility tax as B&O Tax in its exhibit.

Cascade, the TCJA reduced the corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. This reduction significantly changed Cascade's conversion factor. The appropriate conversion factor for purposes of Cascade's general rate case filing is 0.75499. Ms. Erdahl will address the impacts that the TCJA has on the Company's taxes in her testimony. The overall impact of the TCJA on the Company's revenue requirement request, however, is identified further in my testimony.

Q. Please provide a list of adjustments that Commission Staff ("Staff") reviewed but does not contest.

A. Table 1 contains Cascade's adjustments that Staff reviewed and does not contest:

Table 1

Adjustment Number	Adjustment Description
R-2	Promotional Advertising Adjustment
R-4	Low-Income Bill Assistance
P-1	Interest Coordination Adjustment
P-7	Miscellaneous Charge Changes
P-8	CRM Adjustment

Q. Please provide a list of Cascade's adjustments that Staff reviewed and does contest.

A. Table 2 contains Cascade's adjustments that Staff reviewed and does contest:

Table 2

Adjustment Number	Adjustment Description
R-1	Weather Normalization Adjustment
R-3	Restate Revenue Adjustment
P-2	Pro Forma Wage Adjustment
P-3	Pro Forma Plant Additions
P-4	Rate Case Costs
P-5	Pro Forma Compliance Department
P-6	MAOP Deferral Amortization
P-9	Pro Forma Revenue

Q. Does Staff propose any additional adjustments?

A. Yes. Staff proposes six additional adjustments. I address three of these: UTC-1, which removes a portion of incentive pay expense; UTC-2, which removes supplemental executive retirement plan expense; and UTC-6, which restates the 2016 wage increase. Staff witness Ms. Erdahl addresses two others: UTC-3, which decreases Cascade's investor supplied working capital (ISWC) included in its per books operations; and UTC-4, which is the tax effect of the TCJA. Staff witness Ms. Amy White addresses the final adjustment: UTC-5, which removes an unpaid 2014 arbitration expenses included in the Company's per books balance.

Q. Did Staff prepare an exhibit with all of the proposed adjustments?

A. Yes. Page 2 of Exh. KMH-2 summarizes these adjustments.

Q. Please explain Exh. KMH-2.

A. Exh. KMH-2 shows all of the proposed adjustments in columnar format, except for UTC-4, which is shown on Page 1 of Exh. KMH-2. The exhibit identifies the changes in revenue, the net operating income, and the revenue requirement effect. Staff witnesses will discuss their adjustments in more detail in their individual testimony.

Q. Please briefly explain the adjustments and the Staff witnesses who analyzed them.

A. Staff witnesses analyzed the following:

- Ms. Jing Liu analyzed the Weather Normalization Adjustment (R-1), Restate Revenue Adjustment (R-3), the Low-income Bill Assistance Adjustment (R-4), and the Pro Forma Revenue Adjustment (P-9).
- Ms. Amy White analyzed the Company's per books balances, the MAOP Deferral Amortization Adjustment (P-6), and the CRM Adjustment (P-8).
- Mr. David Panco analyzed the Pro Forma Plant Additions (P-3), the Rate Case Costs Adjustment (P-4), Pro Forma Compliance Department Adjustment (P-5), and Miscellaneous Charge Changes Adjustment (P-7).
- Ms. Betty Erdahl analyzed the ISWC workpapers that the Company provided in the rate case. As mentioned earlier, Ms. Erdahl will also address the impact of the TCJA on the Company's filing.

- I analyzed the Company's per books balances, the Promotional Advertising Adjustment (R-2), the Pro Forma Interest Coordination Adjustment (P-1), and the Pro Forma Wage adjustment (P-2).

Q. Are all of these adjustments contested?

A. No. As identified above, only eight of the proposed adjustments are contested. However, as mentioned above, Staff is proposing six new adjustments.

Q. What is the impact of Ms. Liu's adjustments?

A. Ms. Liu's adjustments increase net operating income by $605,378 as shown in Table 3, below.

Table 3

Adjustment Number	Company	Staff	Change to Net Operating Income	Total
R-1	$3,077,609	$2,444,754	($632,855)	
R-3	($1,501,021)	($1,557,514)	($56,493)	
P-9	$3,242,702	$4,537,428	$1,294,726	
			Impact on Net Operating Income	$ 605,378

Q. How do Ms. Liu's adjustments effect the revenue requirement?

A. Ms. Liu's adjustments reduce the revenue requirement by $974,534, as shown in Table 4, below.

Table 4

Adjustment Number	Company	Staff	Change to Revenue Requirement	Total
R-1	($4,954,324)	($3,935,556)	$1,018,768	
R-3	$2,416,338	$2,507,281	$90,943	
P-9	($5,220,091)	($7,304,336)	($2,084,245)	
			Impact on Revenue Requirement	$ (974,534)

Q. What is the impact of Ms. White's adjustments?

A. Ms. White's adjustments increase net operating income by $484,987, as shown in Table 5, below.

Table 5

Adjustment Number	Company	Staff	Change to Net Operating Income	Total
UTC-5	$0	$136,991	$136,991	
P-6	($623,406)	($275,410)	$347,996	
			Impact on Net Operating Income	$ 484,987

Q. How do Ms. White's adjustments effect the revenue requirement?

A. Ms. White's adjustments reduce the revenue requirement by $780,732, as shown in Table 6, below.

Table 6

Adjustment Number	Company	Staff	Change to Revenue Requirement	Total
UTC-5	$0	($220,528)	($220,528)	
P-6	$1,003,558	$443,354	($560,204)	
			Impact on Revenue Requirement $	(780,732)

Q. What is the impact of Mr. Panco's adjustments?

A. Mr. Panco's pro forma plant addition adjustment is two-fold, it increases net operating income by $~~248,145~~ 160,282 and reduces rate base by $~~10,394,170~~ 4,954,376 as shown in Table 7 and Table 8, below.

Table 7

Adjustment Number	Company	Staff	Change to Net Operating Income	Total
P-3	($280,075)	~~($31,930)~~(119,793)	$~~248,145~~160,282	
			Impact on Net Operating Income $	~~248,145~~160,282

Table 8

Adjustment Number	Company	Staff	Change to Rate Base	Total
P-3	$17,820,193	$~~7,426,023~~12,865,817	($~~10,394,170~~4,954,376)	
			Impact on Rate Base	$(~~10,394,170~~4,954,376)

Mr. Panco's other two adjustments increase net operating income by $166,330, as shown in Table 9, below.

Table 9

Adjustment Number	Company	Staff	Change to Net Operating Income	Total
P-4	($194,033)	($79,950)	$114,083	
P-5	($181,736)	($129,489)	$52,247	
			Impact on Net Operating Income	$ 166,330

Q. How do Mr. Panco's adjustments effect the revenue requirement?

A. Mr. Panco's adjustments reduce the revenue requirement by $~~1,984,580~~1,211,498, as shown in Table 10, below.

Table 10

Adjustment Number	Company	Staff	Change to Revenue Requirement	Total
P-3	$2,630,493	$~~913,670~~1,686,752	($~~1,716,823~~943,741)	
P-4	$312,353	$128,703	($183,650)	
P-5	$292,558	$208,451	($84,107)	
			Impact on Revenue Requirement	$(~~1,984,580~~1,211,498)

Q. What is the impact of Ms. Erdahl's adjustment on rate base?

A. Ms. Erdahl's adjustment to ISWC reduces rate base by $12,922,679, as shown in Table 11, below.

Table 11

Adjustment Number	Company	Staff	Change to Rate Base	Total
UTC-3	$0	($12,922,679)	($12,922,679)	
			Impact on Rate Base	$ (12,922,679)

Q. How do Ms. Erdahl's adjustments effect the revenue requirement?

A. Taking into account the impact of the TCJA and ISWC, Ms. Erdahl's adjustments reduce the revenue requirement by $~~4,983,160~~5,051,799, as shown in Table 12, below.

Table 12

Adjustment Number	Company	Staff	Change to Revenue Requirement	Total
UTC-3	$0	($1,500,512)	($1,500,512)	
UTC-4	$0	($~~3,482,648~~3,551,287)	($~~3,482,648~~3,551,287)	
			Impact on Revenue Requirement	$ (~~4,983,160~~5,051,799)

IV. INDIVIDUAL ADJUSTMENTS

Q. Please summarize the effect of your adjustments.

A. My adjustments are designated as UTC-1, UTC-2, P-1, UTC-6, and P-2. The effect of my adjustments increase net operating income by $~~1,375,886~~1,429,005 as Table 13, below, illustrates.

Table 13

Adjustment Number	Company	Staff	Change to Net Operating Income	Total
UTC-1	$0	$921,110	$921,110	
UTC-2	$0	$82,880	$82,880	
P-1	($274,827)	($~~352,988~~299,869)	($~~78,161~~25,042)	
UTC-6	$0	($50,068)	($50,068)	
P-2	($934,593)	($434,468)	$500,125	
			Impact on Net Operating Income	$~~1,375,886~~1,429,005

Q. How do your adjustments effect the revenue requirement?

A. My adjustments reduce the revenue requirement by $~~2,189,001~~2,300,410, as shown in Table 14, below.

Table 14

Adjustment Number	Company	Staff	Change to Revenue Requirement	Total
UTC-1	$0	($1,482,800)	($1,482,800)	
UTC-2	$0	($133,420)	($133,420)	
P-1	$442,415	$~~568,239~~482,727	$~~125,824~~40,312	
UTC-6	$0	$80,599	$80,599	
P-2	$1,504,505	$699,404	($805,101)	
			Impact on Revenue Requirement	$ (~~2,214,898~~2,300,410)

A. Restating Administrative & General Expense - Incentive Pay Expense, Staff Adjustment UTC-1

Q. Please describe Staff's restating adjustment UTC-1, Administrative and General Expense – Incentive Pay Expense.

A. Staff Adjustment UTC-1 removes incorrectly allocated Administrative and General (A&G) expenses related to incentive pay. Cascade should not have included those expenses in the per-book balance when it filed its general rate case on August 31, 2017.

Q. Why does Staff propose to remove these expenses?

A. Because there is no direct ratepayer benefit from incentives that are paid out for a company reaching its financial goals, the benefit is only for the shareholders. In prior cases,[2] the Commission has determined that incentives tied to financial goals, like these, must be disallowed. In Avista Corporation's ("Avista") 1999 general rate case, Docket UE-991606 and UG-991607, the Commission determined that the costs should be removed; stating:

> Shareholders, not captive ratepayers, should bear the cost of these awards. Avista's team incentive bonuses will not be included in rates. As noted in *WUTC v. Washington Natural Gas Co., Docket No. UG-920840, 4th Supp. Order (1993):*
>
> The Commission believes, however, that the Company can do a far better job in the future of creating incentives and setting goals that advantage ratepayers as well as shareholders. Such goals might include controlling costs, promoting energy efficiency, providing

[2] The Commission also disallowed cost of U S WEST's incentive bonuses in Docket No. UT-950200, 15th Supp. Order (April 11, 1996), 47-48.

> good customer service, and promoting safety. Plans which do not tie payments to goals that clearly and directly benefit ratepayers will face disallowance in future proceedings.[3]

As noted above, Staff is proposing to allow the incentive payouts tied to O & M Target and Customer Satisfaction Goals, but cannot support the Company's entire incentive pay expense.

Q. What is Staff's proposal?

A. Staff proposes removing the payouts that were made to employees based on whether the Company met financial goals. Both Staff and Public Counsel submitted data requests to Cascade regarding its incentive plan payouts. In response to Public Counsel Data Request No. 34, the Company identified $1,761,071 as the Washington allocated portion that was paid out under its incentive plan in 2016. In response to Public Counsel Data Request No. 37, the Company stated, "All amounts associated with incentive payments are tied to meeting a certain financial threshold." In response to Public Counsel Data Request No. 110, the Company corrected the incentive payout amount to $1,765,931 and stated that the amount initially identified in Public Counsel Data Request No. 34 of $1,761,071, was incorrect. Staff reviewed the Company's incentive plan and discovered that Cascade awards payouts based on the attainment of three specific pre-established goals. These goals are: Financial Goals, O & M Target, and Customer Satisfaction Goal. In UTC Staff Data Request No. 109, Staff asked the Company to breakdown the incentive payout into these three categories. In response, the Company itemized the payout into seven

[3] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-991606 and UG-991607, Third Supplemental Order, Page 74, ¶ 271 (September 29, 2000).

categories and provided data that included payouts for meeting the O & M Target and Customer Satisfaction Goal. Staff proposes allowing the incentive plan payouts under these two categories but to disallow the payouts under the other categories. Therefore, based on the Company's responses to Public Counsel Data Requests Nos. 34, 37, and 110, as well as UTC Staff Data Request No. 109, Staff proposes removing $1,417,093 from A&G Expense.

Q. Did Staff prepare any exhibits in support of this adjustment?

A. Yes. I prepared the following exhibits: Exh. KMH-3, Cascade's Response to Public Counsel Data Request No. 34; Exh. KMH-4, Cascade's Response to Public Counsel Data Request No. 37; Exh. KMH-5, Cascade's Response to Public Counsel Data Request No. 110; and, Exh. KMH-6, Cascade's Response to UTC Staff Data Request No. 109.

Q. What is the impact of Staff's Adjustment UTC-1?

A. Staff's adjustment increases net operating income by $921,110 and decreases the revenue requirement by $1,482,800. This impact is presented in Table14, above.

B. Restating Non-Union Retirement Benefits, Staff Adjustment UTC-2

Q. Does Cascade offer any retirement plans that are *not* available to all employees?

A. Yes. The Company offers a Supplemental Executive Retirement Plan (SERP), and a Supplemental Income Security Plan (SISP) that are not available to all employees.

Q. Are these plans qualifying plans?

A. No. SISP and SERP are considered "non-qualifying" plans by the Internal Revenue Service. SISP and SERP are not qualifying plans because they are only available to executives of the Company and because non-executive employees do not have comparable plans available to them.

Q. Does the Company include these expenses in its current filing?

A. Yes. The costs of these plans are included in the A&G expense category. Specifically, they are located in expense account 926 – "Employee pensions and benefits."

Q. Does Staff have a recommendation regarding the expenses related to SISP and SERP?

A. Yes. Staff recommends that these expenses be removed. The issue of requiring customers to pay the cost of SERP, under similar circumstances as to those presented by Cascade, has been argued before the Commission in prior general rate cases. In particular, the issue was addressed in Puget Sound Energy's general rate case, Dockets UE-090704 and UG-090705. In that case, the Commission determined the costs should be removed; stating:

> As to SERP, we find persuasive the arguments recommending removal of these costs. PSE has failed to provide an adequate justification for continuing to require ratepayers to fund supplemental retirement benefits for a small number of executives who already are highly compensated and entitled to the same levels of qualified

> retirement plan benefits as other employees, within the limits of what the IRS allows.[4]

The Commission's reasoning was consistent with the underlying rationale, explained above, behind disallowing these expenses. In this case, the Commission should continue to follow its precedent because the underlying rationale remains strong: ratepayers should not fund supplemental benefits for a small number of executives who are already highly compensated and entitled to the same levels of qualified benefits as other employees.

Q. Has Staff determined how much SISP/SERP expense Cascade allocated to Washington?

A. Yes. In response to Public Counsel Data Request No. 31, the Company identified $127,508 as the amount of SISP/SERP expenses allocated to Washington. This amount should be removed from the Company's books.

Q. What is the impact of Staff's Adjustment UTC-2?

A. Staff's adjustment increases net operating income by $82,880 and decreases the revenue requirement by $133,420. This impact is presented in Table14, above.

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[4] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, Page 32, ¶ 81 (April 2, 2010).

C. Interest Coordination Adjustment, P-1

Q. Please describe this adjustment, P-1.

A. The interest coordination adjustment, P-1, is often referred to as "interest synchronization" or the "pro forma interest adjustment." This adjustment revises the booked interest expense by multiplying the weighted cost of debt by the pro forma rate base to determine the pro forma interest expense. The purpose of this adjustment is to synchronize the effect of interest expense for the computation of income taxes associated with plant in service to the utility operations. The derived amount captures the proper federal income tax for ratemaking purposes.

Q. Please describe briefly Staff's proposed changes to the pro forma interest adjustment.

A. Staff does not contest Cascade's methodology. This adjustment is a pass-thru adjustment and is adjusted or revised due to Staff's proposed changes to pro forma rate base and Cascade's weighted cost of debt. Mr. David Parcell addresses Staff's recommended cost of debt in his testimony, Exh. DCP-1T, wherein he agrees with the Company's proposed cost of debt of 5.295 percent.

Staff's proposed changes to the pro forma interest adjustment results in a decrease to net operating income of $~~352,988~~299,869, which is a $~~78,161~~25,042 greater decrease than the adjustment as proposed by the Company. Staff's proposal would, however, increase revenue requirement by $~~568,239~~482,727, which is a

$~~125,824~~ 40,312 greater increase than the adjustment as proposed by the Company. This impact is presented in Table 14, above.

D. Restating and Pro Forma Non-Union and Union Wages, Adjustments: UTC-6 and P-2

Q. What is the Commission's general approach to pro forma adjustments?

A. The Commission relies on its rule that pro forma adjustments must "give effect for the test period to all known and measurable changes that are not offset by other factors."[5]

Q. Please describe the Company's proposed adjustment to non-union and union wages in P-2.

A. The adjustment is described in Company testimony as consisting of four components. The first component of the adjustment annualizes the test year wages for the 3.1 percent increase approved for union employees on April 1, 2016. The second component of the adjustment layers on the 2017 actual wage increases: 3.1 percent for union employees and an average of 3.97 percent for non-union employees. The third component adds in the 2018 *estimated* increases for the union and non-union employees, 3.1 and 4.0 percent, respectively. The final piece of the adjustment is described in Michael P. Parvinen's testimony, Exh. MPP-1T, at 5:23-26. He states:

[5] WAC 480-07-510(3)(iii).

> The fourth component is a reflection of the 2017 and 2018 wage increase associated with employees that are allocated to Cascade rather than directly assigned. In general, all non-union employees receive the same level of increases as approved by the Board of Directors.

The Company's proposed adjustment would decrease net operating income by $934,593.

Q. What is Staff's recommendation for this adjustment?

A. Although the Company's adjustment is identified as a pro forma adjustment, it is properly described as a combination of both a restating adjustment and a pro forma adjustment. Therefore, Staff proposes separating the Company's adjustment into two pieces: a restating adjustment (UTC-6); and, a pro forma adjustment (P-2).

For Staff Adjustment UTC-6, Staff recommends allowing the annualized (or restated) wage increase of 3.1 percent for union employees for 2016 as proposed by the Company. The restated wage increase for 2016 is $77,028. Staff's adjustment reduces net operating income by $50,068 and increases revenue requirement by $80,599. This impact is presented in Table14, above.

Staff's proposed changes to the pro forma piece of the wage adjustment, adjustment P-2, deserves greater explanation.

Q. What is Staff's recommendation for the pro forma piece of the wage adjustment, P-2?

A. Staff recommends that the Commission only allow the known 2017 wage increases: 3.1 percent for union employees and 3.97 percent for non-union employees. Staff does not support including the Company's proposed 2018 wage increases.

Q. Why does Staff not support including the proposed 2018 wage increases?

A. The proposed 2018 wage increases of 3.1 percent for union employees or 4.0 percent for the non-union employees are not known and measurable. In response to Public Counsel Data Request No. 39, the Company provided its union contract, which includes a wage schedule for union employees for 2015, 2016, and 2017 that indicates the actual approved wage increases of 3.1 percent for each of those years.[6] Also in its response, the Company stated that it intends to bargain a new contract in early 2018. Also, in Cascade's response to UTC Staff Data Request No. 43(a), Exh. KMH-7, the Company indicated that instead of the 4.0 percent wage increase it had provided in its workpapers, it had only *budgeted* a 3.5 percent wage increase for non-union employees for 2018. The Company provided additional information related to the non-union wage increase in response to UTC Staff Data Request No. 103, Exh. KMH-8, stating:

> The overall budget approved is 4% for the 2018 salary review. With that being said, **Managers will be given 3% of the budget** to work with.
> . . .
> A recommended approach is to start at 2% for all, then allocate additional dollars to address [circumstances of exceptional

[6] Cascade's Response to Public Counsel Data Request No. 39 at 38.

> performers, expedite equity, recognize positions that are difficult to fill, and address compression issues].
>
> . . .
>
> Employees that are above the salary range maximum are considered "red-circled" and are not eligible for a base pay increase for 2018 . . . .

Based on the responses from the Company, the actual 2018 wage increases for union and non-union employees are uncertain estimates, guesses, or budgets, only. The 2018 wage increases cannot, therefore, be considered known and measurable and must be disallowed.

Q. What is the amount of pro forma wage expense supported by Staff?

A. Staff supports allowing the pro forma 2017 wage increase of $668,411 for union and non-union employees and disallowing all of the proposed 2018 wage increases.

Q. What is the impact of Staff's proposed Pro Forma Wage Adjustment P-2?

A. The impact of allowing all of the pro forma 2017 wage increase and disallowing all of the proposed 2018 wage increases decreases net operating income by $434,468, which is $500,125 greater than the adjustment as proposed by the Company. It also has the impact of increasing the revenue requirement by $699,404, which is $805,101 less than the adjustment as proposed by the Company. This impact is presented in Table14, above.

E. State Allocation Factors

Q. Please describe the Company's formula for allocating expenses to Washington.

A. The Company uses a 3-factor formula for allocating expenses between Washington and Oregon. The 3-factor components are customers, employees, and gross plant. The Company averages the percentages of Washington customers, employees, and gross plant. The percentages for Washington in 2016 are displayed in Table 15, below. These percentages produce a Washington allocation factor of 75.28 percent.

Table 15

Customers	74.88%
Employees	73.72%
Gross Plant	77.24%
Total	75.28%

Q. Is Staff comfortable with the methodology used by Cascade for allocating expenses to Washington?

A. Yes. The allocation of expenses between Washington and Oregon has remained relatively constant. In 2014, the 3-factor formula resulted in 75.70 percent of costs being allocated to Washington; in 2015, the 3-factor formula resulted in 75.73 percent being allocated to Washington, and, as noted above, the 3-factor formula for 2016 (the test year) resulted in 75.28 percent of costs being allocated to Washington. Staff confirmed with the Company what the allocation percentage will be for Washington in 2017. Based on Cascade's response to UTC Staff Data Request No.

48, the 3-factor formula for allocating costs to Washington for 2017 will be 75.04 percent.

Q. Does this conclude your testimony?

A. Yes.