Exh. BAE-10T
Docket UG-170929
Witness: Betty A. Erdahl

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

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

CROSS ANSWERING TESTIMONY OF

Betty A. Erdahl

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

NWIGU's Proposed Adjustment - TCJA-2

March 23, 2018

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I. INTRODUCTION

Q. Are you the same Betty A. Erdahl who filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your cross-answering testimony?

A. I respond to NWIGU witness Mr. Bradley G. Mullins's testimony about the going forward pieces of his proposed adjustment for the amortization of excess deferred income tax ("EDIT")[1] resulting from the passage of the new tax law ("Tax Cuts and Jobs Act" or "TCJA"). By "going forward," I mean the portions of the adjustment that will affect proposed rates as of August 1, 2018 (the suspension date for this general rate case). Mr. Mullins proposed amortizing EDIT and refunding it to ratepayers based on the alternative method mentioned by the Internal Revenue Service ("IRS") because, he contended, Cascade lacked the necessary vintage information for using the Average Rate Assumption Method ("ARAM"). Staff witness Ms. Melissa Cheesman explains why this is incorrect, *see* Exh. MCC-9T. In my cross-answering testimony, I recommend how the revenue requirement model should be updated for the correct amounts of protected and unprotected EDIT due to the new tax law.[2] I also recommend a new tariff schedule for refunding the identified protected and unprotected EDIT to ratepayers.

[1] Mr. Mullins and other parties have used the acronym EDFIT (excess deferred federal income tax) at times.
[2] These amounts are estimates and subject to change based on developing information and understanding of the new tax law.

II. EXCESS DEFERRED INCOME TAX (EDIT)

Q. Do you agree with Mr. Mullins's approach to calculating unprotected and protected EDIT, as well as his proposal for recovery of these amounts?

A. No. First, Staff recommends that the Company refund the entire amount of unprotected EDIT over one year, as opposed to the 10-year period proposed by Mr. Mullins. Second, as discussed by Ms. Cheesman in her cross-answering testimony, Staff recommends amortizing the protected EDIT using the ARAM method rather than the alternative method proposed by Mr. Mullins because use of the alternative method would harm the Company.

Q. How do these recommendations effect the revenue requirement model?

A. For the *unprotected* EDIT, Staff recommends increasing rate base by $3.7 million,[3] as compared to $89,359[4] identified by Mr. Mullins. Staff's adjustment is necessary because it represents a reduction in Cascade's future tax liability. In other words, Cascade recovered amounts from customers to be used for what it owed to the IRS at the 35 percent tax rate, but when the new tax law passed it resulted in ratepayers only being responsible for amounts necessary under the new 21 percent tax rate. One difference between the 35 percent and 21 percent tax rate is an excess of deferred taxes, referred to as EDIT, which must be returned to customers. Staff's proposed

[3] This amount is subject to change. Staff will receive a final response to UTC Staff Data Request No. 150 by March 28, 2018.
[4] Please refer to Mr. Mullins' exhibit "170929-NWIGU-Exh-3-BGM-02152018.xlsx," tab "10) TCJA-2 EDIT," cell L11.

adjustment increases rate base for known and measurable changes related to Staff's proposed EDIT amortization not restricted by the IRS normalization rules. Additionally, the adjustment refunds unprotected EDIT to ratepayers through a new tariff schedule, reflecting the elimination of this portion of Cascade's future tax liability.

Staff proposes that the Company return the entire amount of unprotected EDIT to ratepayers within a year using a separate tariff schedule consistent with the method Ms. Cheesman recommends for the over-collection of taxes embedded in interim rates.[5] The amount refunded to each rate class should be based on each class's contribution to the over-collection, and a separate schedule will make it easier to identify each class's contribution. The tariff refund schedule should expire once Cascade's customers have received the entire amount.

Cascade has identified $30.3 million[6] for "protected-plus EDIT"[7] through informal discussions. This is approximately one million dollars more than Mr. Mullins estimation of $29.4 million.[8] The protected EDIT is related to plant differences between tax and book purposes, resulting in a deferred tax balance on the

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[5] Staff is proposing a comparable mechanism for returning over-collected taxes to customers in Docket UE-170485/UG-170486.

[6] This amount is subject to change. Staff will receive a final response to UTC Staff Data Request No. 150 by March 28, 2018.

[7] Cascade uses the term "plant EDIT" due to the inability of its asset software to distinguish between protected and unprotected plant EDIT. Staff uses the term "protected-plus EDIT" to eliminate any confusion with what Staff has termed "protected EDIT" and "unprotected EDIT." For the purpose of ratemaking, the terms "protected EDIT" and "protected-plus EDIT" are the same in this context.

[8] Please refer to Mr. Mullins' exhibit "170929-NWIGU-Exh-3-BGM-02152018.xlsx," tab "10) TCJA-2 EDIT," sum of cells L10, L16, and L17.

books paid for by the ratepayers.[9] In response to UTC Staff Data Request No. 149, Cascade provided the estimated 2016 test year protected EDIT that has, or will, reverse and amortize in 2018 for EDIT related to 2016 and earlier vintages. According to Staff's calculations, the amount of protected EDIT amortizing in 2018 is $1.1 million.[10] Mr. Mullins calculated this amount as $830,279[11].

Staff proposes that the reversal and amortization of the $1.1 million be treated in the following way:

- Increase rate base by $1.1 million;
- Defer the remaining protected EDIT $29.2 million as a regulatory liability;[12] and
- Refund customers $1.1 million within one year using a separate tariff schedule consistent with unprotected EDIT.

Consequentially, in subsequent general rate cases, the Company will need to provide the amounts of protected EDIT that will need to be refunded to customers through the proposed separate tariff schedule. The analysis for reversed and amortized protected EDIT must be continued until protected EDIT has been reduced to zero and completely refunded to ratepayers.

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[9] The largest percentage of protected (plus) EDIT relates to the timing difference for plant accelerated depreciation for tax purposes and straight-line depreciation for book purposes. The tax expense does not go away. Over time the financial depreciation expense will catch up with the quicker tax depreciation expense so that the two are equal by the end of the life of the underlining asset. The "deferred" tax balance will diminish to zero at that time.

[10] See Exh. BAE-11, Cascade calculates $1,448,885 as the annual system estimated 2018 reversal for 2016 and earlier vintages. $1,448,885 multiplied by Washington rate base allocation 77.03 percent equals $1,116,076.

[11] Please refer to Mr. Mullins' exhibit "170929-NWIGU-Exh-3-BGM-02152018.xlsx," tab "10) TCJA-2 EDIT," sum of cells P10, P16, and P17.

[12] $30,321,661 less $1,116,076.

Q. What, ultimately, is your recommendation to the Commission?

A. The Commission should update the revenue requirement model in the following way to reflect Staff's recommendation related to the tax law change:

- Increase rate base by $3.7 million, which corresponds to the unprotected amount of EDIT;
- Refund to customers the entire $3.7 million of unprotected EDIT over one year, instead of ten years as Mr. Mullins proposes, using a separate tariff schedule;
- Increase rate base by an additional $1.1 million to account for the protected EDIT annual reversal calculated using ARAM identified by the Company; and
- Refund $1.1 million of protected EDIT to customers for the annual 2018 reversals over one year using a separate tariff schedule, instead of using Mr. Mullins' proposed alternative method and reducing base rates.

Q. Does this conclude your testimony?

A. Yes.