

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF ZIA NATURAL)
GAS COMPANY’S APPLICATION FOR)
REVISION OF ITS RATES, RULES, AND)
FORMS UNDER ADVICE NOTICE NO. 57,)
ZIA NATURAL GAS COMPANY,)
APPLICANT.)
_____)**

CASE NO. 18-_____-UT

PREPARED DIRECT TESTIMONY

OF

ANNE G. WHEATCROFT

**On Behalf of
Zia Natural Gas Company**

**Issues:
Depreciation Expense
Income Tax Expense**

January 26, 2018

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I. WITNESS INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Anne G. Wheatcroft, Controller, Natural Gas Processing Co., 101 Division Street, Worland, Wyoming 82401.

Q. HOW LONG HAVE YOU BEEN WITH NATURAL GAS PROCESSING CO. AND WHAT IS YOUR ROLES AND RESPONSIBILITIES?

A. I am the Controller for Natural Gas Processing Co. (“NGP”) and have been in this position since December 2010. I am responsible for all of the accounting functions for NGP and both of the divisions; Zia Natural Gas Company (“ZIA”) and Wyoming Gas Company (“WGC”). I oversee all of the daily accounting functions that originate at each division. From this daily activity, I supervise and prepare the individual and consolidated financial statements. I am also responsible for preparing the annual financial reports and oversee the preparation of the audited financial statements and the tax return.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS?

A. I received a Bachelor of Science Degree in Business Administration from Colorado State University and a Master of Professional Accountancy Degree from Montana State University. I am a Certified Public Accountant, with licenses in Montana and Wyoming. I have attended the American Gas Association Accounting Conference and a PricewaterhouseCoopers Rate Case class. I am currently a member of the American Institute of Certified Public Accountants. Prior to NGP, I worked in Public Accounting as an Auditor for four years.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

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1 **A.** I am testifying on behalf of the applicant, ZIA.

2 **Q.** **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NEW MEXICO PUBLIC**
3 **REGULATION COMMISSION (“COMMISSION” OR “NMPRC”)?**

4 **A.** No, I have not previously testified before the Commission. I have testified before the
5 Wyoming Public Service Commission in Docket No. 30009-60-GR-16 and Docket No.
6 50051-2-PR-16.

7 **Q.** **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 **A.** The purpose of my testimony is to explain the calculation of the correlating adjustments
9 to Accumulated Depreciation and Depreciation Expense and the current income tax
10 expense.

11 **Q.** **DO YOU SPONSOR ANY SCHEDULES?**

12 **A.** Yes, I sponsor the following schedules:

13 Schedule B-1 through B-8 and B-10 – Plant in Service

14 Schedule C – Accumulated Depreciation

15 Schedule E – Working Capital Allowance

16 Schedule G-9 – Historical Activity Retained Earnings

17 Schedule H-2 – Cost of Purchased Gas

18 Schedule H-3 – Reconciliation of Revenues Generated through the PGAC with
19 Purchased Gas Cost

20 Schedule H-7 – Depreciation Expense

21 Schedule H-8 through H-12 – Taxes, Accumulated Deferred Income Tax

22 Schedule H-13 – Investment Tax Credits

23 Schedule H-14 – Expenses Associated with Affiliated Interests

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1 Schedule H-15 – Expenses Associated with Nonutility Services

2 Schedule I – Balance Sheet, Income Statement, Cash Flows

3 Schedule Q-2 & Q-4 – Key Operating Statistics

4 Schedule R – Required Reports

5 **Q. WHERE THESE SCHEDULES PREPARED BY YOU OR UNDER YOUR**
6 **DIRECT SUPERVISION AND CONTROL?**

7 **A.** Yes.

8 **Q. ARE THESE SCHEDULES TRUE AND CORRECT TO THE BEST OF YOUR**
9 **KNOWLEDGE AND BELIEF?**

10 **A.** Yes.

11 **II. ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE**

12 **Q. PLEASE EXPLAIN SCHEDULE H-7 – DEPRECIATION EXPENSE.**

13 **A.** Schedule H-7 details the base period depreciation expense and the test year adjustment to
14 depreciation expense. Depreciation expense was adjusted by \$63,120 for a total
15 depreciation expense of \$2,129,164. The adjustment annualizes the partial depreciation
16 for capital expenditures during the test year. For example, a capital item purchased
17 during the last month of the test year only shows one month of depreciation expense in
18 the “Base Period Total” column, (Schedule H-7, Column B). However, because ZIA will
19 be experiencing this depreciation expense from the point of purchase until it is fully
20 depreciated, ZIA should be allowed to recover the expense for the entire year.
21 Additionally, the adjustment reflects the annual depreciation expense related to the plant
22 items that are proposed as part of the Test Year Adjustment. The depreciation expense
23 adjustment of \$63,120 is simultaneously reflected as the Test Year Adjustment for
24 Accumulated Depreciation in Schedule C.

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1 **Q. IS THE DEPRECIATION ADJUSTMENT CALCULATION DIFFERENT FOR**
2 **GENERAL PLANT ASSETS?**

3 A. Yes. Transmission and Distribution Utility Plant assets are depreciated according to the
4 Group concept of book depreciation. The General Plant assets are managed as unique,
5 individual assets and are depreciated individually on a straight line basis. They are not
6 depreciated according to the Group concept of book depreciation. As such, the “Test
7 Year Adjustment” (Schedule H-7, Column C) was calculated on each addition to General
8 Plant that is listed on Schedule B-2, Column “Test Year Adjustments.” The amount
9 calculated in Schedule H-7 represents a full year of depreciation expense for that
10 individual asset.

III. INCOME TAX EXPENSE

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12 **Q. WHAT INCOME TAX RATE IS REFLECTED IN THIS FILING?**

13 A. The Income Tax Rate reflected in this filing is 34.5%.

14 **Q. HOW WAS INCOME TAX RATE DETERMINED?**

15 A. On December 22, 2017, H.R. 1, the 2018 Tax Cuts and Jobs Act was passed by Congress.
16 H.R. 1 restructured the tax tables significantly. As Zia Natural Gas Company is a
17 division of Natural Gas Processing Co., which is an S-Corporation, we must apply H.R.1
18 to the taxpayer. In this case, the taxpayer is the shareholder of Natural Gas Processing
19 Co. The shareholder falls under the married filing jointly tax structure. Thus, the
20 applicable federal rate is 37%. A provision in H.R.1 also provided a deduction for
21 qualified business income of pass-thru entities. As NGP is an S-Corporation, it is a pass-
22 thru entity. The deduction is equal to twenty percent of the taxpayer’s qualified business
23 income. The 20% deduction is limited based on the W-2 wages of the business and the

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1 unadjusted basis of qualified property. As ZIA has substantial W-2 wages and qualified
2 property over the limit calculation thresholds, the 20% deduction is not limited. As a
3 result, the taxpayer will receive a full 20% deduction of the qualified business income. A
4 20% deduction of the federal rate of 37% equates to a federal income tax rate of 29.6%.
5 Additionally, as part of H.R.1, state and local income taxes are no longer deductible for
6 federal income tax calculations. Thus the state income tax rate is simply added to the
7 federal income tax rate. The New Mexico individual income tax rate for married filing
8 jointly is 4.9%. The summation of the federal and state income tax rates equals 34.5%.

9 **Q. HAS THE 2018 TAX CUTS AND JOBS ACT SIGNIFICANTLY AFFECTED THE**
10 **INCOME TAX EXPENSE?**

11 A. Yes. The passing of H.R. 1, has significantly affected the income tax expense of the
12 Company. Prior to the passing of the new tax law, the income tax rate of the Company
13 was 42.56%. H.R. 1 provides a notable reduction in the income tax expense to ZIA and
14 its customers.

IV. CONCLUSION

16 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

17 A. My testimony explains the calculation of ZIA's depreciation expense and the current
18 income tax expense.

19 **Q. IN YOUR OPINION, ARE ZIA'S PROPOSALS ON THESE ISSUES**
20 **APPROPRIATE?**

21 A. Yes, ZIA's proposed depreciation expense and income tax expense are appropriate and
22 should be approved.

23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

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1 A. Yes, it does.

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