

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

NORTHWEST NATURAL GAS, d/b/a  
NW NATURAL,

Respondent.

DOCKET UG-181053

JOINT SETTLEMENT AGREEMENT

**I. PARTIES**

*I* This Settlement Agreement (“Agreement”) is entered into by Northwest Natural Gas Company d/b/a NW Natural (“NW Natural” or the “Company”), the Staff of the Washington Utilities and Transportation Commission (“Staff”), the Public Counsel Unit of the Washington Office of Attorney General (“Public Counsel”), Alliance of Western Energy Consumers (“AWEC”), and The Energy Project (“TEP”), jointly referred to herein as the “Parties.” This Agreement represents a partial settlement under WAC 480-07-730(2) in that it is an agreement of all Parties that would resolve all disputed issues in this docket with the sole exception that the topic of the Company’s proposed decoupling mechanism is the subject of a separate Partial Multi-Party Settlement Agreement on Decoupling (“Multi-Party Decoupling Agreement”) under WAC 480-07-730(3)(b) of all Parties except for the Public Counsel. The Public Counsel is not a signatory to the Multi-Party Decoupling Agreement.

## II. INTRODUCTION

2 On December 31, 2018, NW Natural filed tariff revisions to its currently effective  
Tariff WN U-6 to increase rates and charges for natural gas service provided to customers in  
the State of Washington. NW Natural requested authority to increase revenues from base  
rates by \$8.3 million, which would result in an approximately 12.6 percent increase to  
overall base rates, or a 20.5% increase to margin. On January 8, 2019, the Washington  
Utilities and Transportation Commission (“Commission”) entered Order 01 suspending the  
tariff revisions and placing NW Natural’s request in formal adjudication. Representatives of  
all Parties appeared at a settlement conference held on April 22, 2019, for the purpose of  
narrowing or resolving the contested issues in this proceeding. Those discussions led to this  
Agreement and the separate Multi-Party Decoupling Agreement.

3 The Parties have reached a full settlement of the issues in this proceeding, with the  
sole exception of the Company’s proposed decoupling mechanism, and wish to present this  
Agreement for the Commission’s consideration and approval. The Parties agree that this  
Agreement is in the public interest and should be accepted by the Commission as a full  
resolution of all issues in Docket UG-181053 except for the issue of the Company’s  
proposed decoupling mechanism. The Parties understand that this Agreement is subject to  
approval by the Commission and hereby respectfully request that the Commission issue an  
order approving this Agreement in its entirety.

## III. AGREEMENT

### A. Revenue Increase and Effective Date

4 Increases in Base Rates and Early Implementation. The Parties agree that, effective  
with service on and after November 1, 2019, NW Natural shall be authorized to implement

base rate changes designed to increase its annual revenues from its Washington natural gas customers by \$5,138,531.

**B. Cost of Capital**

5           Cost of Capital. The Parties agree to an overall rate of return of 7.161 percent, a return on equity of 9.40 percent, a 5.066 percent cost of long-term debt, a 2.186 percent cost of short-term debt, and a capital structure of 49.0 percent equity, 50.0 percent long-term debt and 1.0 percent short-term debt.

**C. Miscellaneous Adjustments**

6           The Parties agree to a total revenue requirement increase of \$5,138,531. Although the Parties discussed different adjustments and took different positions on how to justify the revenue requirement increase, the Parties agree that the following adjustments to NW Natural’s filing justify the agreed-upon revenue requirement:

7           Revenue and Gas Costs. Demand Side Management (“DSM”) savings have been removed from usage per customer calculations, which resulted in a \$113,035 reduction to the Company’s filed revenue requirement.

8           Bonuses. The bonus adjustment has been recalculated using a five-year average and excluding the long-term portion of the Company’s executive compensation program, which resulted in a \$271,144 reduction to the Company’s filed revenue requirement.

9           Payroll. The amount of payroll operations and maintenance (“O&M”) expense, including payroll overhead, has been reduced, which resulted in a \$87,414 reduction to the Company’s filed revenue requirement.

10            Miscellaneous O&M Adjustment. The amount of the O&M expense has been reduced by \$250,000, which resulted in a \$260,844 reduction to the Company’s filed revenue requirement.

11            Investor-Supplied Working Capital (“ISWC”). ISWC has been reduced to the amount of \$972,715 by recategorizing certain accounts, which resulted in a \$1,027,567 reduction to the Company’s filed revenue requirement.

12            Allocation Factors. NW Natural’s allocation factors have been changed, which resulted in a reduction of \$123,042 to the Company’s revenue requirement.

13            Post-Test Year Plant Additions. All of the Company’s post-test year plant additions identified in the Direct Testimony of Joe S. Karney (Exh. JSK-1T) have been included in rate base, with the exception of the following projects: Network Control Systems (“NCS”) Tech Refresh, NCS Tech Refresh Microwave, Lacamas Regional Gate Station, Mist Standby Generator and Mist Fiber Network. Removal of these projects resulted in a \$107,326 reduction to the Company’s filed revenue requirement.

14            Non-Plant Excess Deferred Income Taxes (“EDIT”). Non-Plant EDIT has been removed from Deferred Taxes included in rate base, which resulted in a \$16,924 reduction to the Company’s filed revenue requirement.

**D.     Rate Design/Rate Spread**

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- a.     The Customer Charge for Residential Rate Schedule 1 is increased to \$5.50.  
The Customer Charge for Rate Schedule 2 is increased to \$8.00.
- b.     The Parties agree to apply the total revenue requirement increase of \$5,138,531 on an equal percent of margin basis across all rate schedules.

- c. The Company shall perform a second adjustment, within Rate Schedules 41 and 42, such that sales and transportation margin rates in those two Rate Schedules receive the same percentage increase.

**E. Environmental Remediation**

16 State Allocation of Environmental Remediation. The Company shall allocate to Washington 3.32 percent of environmental remediation expense associated with the remediation sites for which the costs are shared between Oregon and Washington, and shall allocate to Washington 3.32 percent of insurance proceeds related to those sites

17 Treatment of Historical Environmental Remediation Costs.

- a. The Company shall not recover \$1.488 million of environmental remediation expense that it incurred prior to the Commission's Order No. 01 in Docket UG-110199 authorizing deferred accounting for environmental remediation expense.
- b. The Company shall apply insurance proceeds to entirely offset deferred environmental remediation expenses of \$3.017 million for the period of February 1, 2011, through November 30, 2018.
- c. Expenses deferred over the period December 1, 2018, through June 30, 2019, shall be offset entirely with insurance proceeds, subject to a review of the prudence of those expenditures in the July 15, 2020, ECRM tariff filing set forth in paragraph 18.b. of this Agreement.

18 Environmental Cost Recovery Mechanism (ECRM). The Company shall establish its proposed ECRM, which would provide an annual review process of its environmental

remediation costs allocable to Washington customers and include those costs in rates each year on November 1, subject to the provisions of this Agreement.

- a. Insurance Proceeds. The Company shall apply the remaining balance in insurance proceeds to offset deferred expenses through the ECRM in the following manner:
  - i. The remaining balance of insurance proceeds shall be amortized over the 10.5-year period July 1, 2019, through December 31, 2029. The amortization for July 1, 2019, through December 31, 2019, shall be a 6-month, pro rata share of the remaining balance of insurance proceeds.
  - ii. Any additional insurance proceeds and third-party payments shall be added to the remaining balance of insurance proceeds and amortized over the remaining years in the 10.5-year amortization period.
- b. ECRM Tariff Filings. The Company shall make an annual ECRM tariff adjustment filing on or before July 15 for rates effective each November 1. The ECRM rates shall collect prudent expenditures deferred during the immediately prior January 1 through December 31 period, less that year's allocation of insurance proceeds.
  - i. The first ECRM rates shall go into effect on November 1, 2020, for expenses deferred July 1, 2019, through December 31, 2019. See paragraph 17.c. of this Agreement for the treatment of expenses deferred over the period December 1, 2018, through June 30, 2019.

- c. Cap on Annual Amortizations. Once the insurance proceeds have been fully expended to offset deferred expenses, ECRM rates shall not result in an increase to the Company's Washington normalized revenues by more than one percent.
  - i. In the event that amortization of the prior year's deferred amounts over a one-year period would cause an increase to the Company's Washington normalized revenues by more than one percent, then the deferred amounts exceeding the one percent cap shall be amortized over the next three years, beginning with the next year's Purchased Gas Adjustment (PGA) tracking period.
- d. Additional Insurance Proceeds. In the event that NW Natural receives additional insurance proceeds or third-party payments after the 10.5-year amortization of the remaining insurance proceeds, the Company shall propose a new amortization schedule in its first prudence review filing following receipt of such insurance proceeds or third-party payments.
- e. If the amortization of an annual deferral balance exceeds one year (as described in paragraph 18.c.i. of this Agreement), the Company shall assess interest at its cost of debt. If a deferral balance is amortized over one year or less, no interest shall accrue on that deferral balance.

**F. TCJA**

19 The Parties agree to the following adjustments to the Company's filed testimony and exhibits on TCJA:

- a. The Company shall develop separate tariff riders for the credit of the interim period deferral and Plant EDIT.
- b. The interim period over-collection is \$2.1 million and shall be amortized to the benefit of customers over one year.
  - i. The agreement on the \$2.1 million establishes a specific amount to be returned to customers, and does not reflect agreement among the Parties as to the correct methodology for calculating the interim period over-collection.
- c. Plant EDIT allocated to Washington shall be \$14.592 million before gross up for taxes. Plant EDIT shall be amortized consistent with federal normalization rules and to the benefit of customers as a reduction to customer rates. The initial annual amortization shall be \$400,000 before any applicable income tax and revenue sensitive tax gross ups are applied. (\$528 thousand after reflecting gross-up factor).
- d. Non-Plant EDIT shall be set to zero and shall not result in a collection from or benefit to customers.

**G. Energy Conservation**

20 The Parties agree to the following provisions regarding energy conservation. The Parties understand that Section G relates to the terms of this Agreement only, and does not preclude the Company from complying with new or existing statutory requirements. The Parties understand that new laws, such as those enacted by the passage of House Bill (“HB”) 1257 (An Act Relating to Energy Efficiency), which the Governor signed into law (Chapter 285, 2019 Laws), effective July 28, 2019, or new or amended Commission rules with respect to natural gas energy efficiency, may supersede the terms of this Agreement and may



require the Company to modify its energy conservation plan and compliance with the terms listed below.

- a. The Company shall file a conservation tariff adjustment each year by September 15, with an effective date of November 1.
- b. The Company's conservation cost recovery mechanism shall be adjusted to allow for contemporaneous recovery of expenses. The cost recovery schedule shall be as follows:
  - i. Rates effective November 1 through October 31 of each year shall collect the forecasted expenses for that same time period plus the prior period deferral balance. The prior period deferral balance shall capture any variations between the forecasted amounts and actual expensed amounts for the same period.
  - ii. The cumulative deferral balance of approximately \$5.25 million as of October 31, 2019, shall be amortized over a four-year period November 1, 2019, through October 31, 2023. (The \$5.25 million cumulative deferral balance is composed of \$2.84 million from January 1, 2018, through February 28, 2019, and \$2.41 million projected for March 1, 2019, through October 31, 2019. The remaining 2017 deferral balance of \$1.1 million is being recovered through current rates.)
  - iii. The Parties understand that the treatment of interest on deferred conservation balances may be modified by future Commission action or rulemaking in response to HB 1257. To the extent that interest on

the balances identified in paragraph 20.b.i.–ii. of this Agreement is addressed in a future Commission rulemaking or order, the Company shall comply with such rule or order upon the effective date of such rule or order.

- c. The Company shall identify and acquire all available cost-effective conservation as identified in the Company's energy efficiency plans. The Company shall use a properly-balanced Total Resource Cost (TRC) or, if one is not available, a Utility Cost Test (UCT), to determine the cost effectiveness of the conservation program.
- d. The Company shall have conducted an independent conservation potential assessment ("CPA") every two years, projecting the 20-year conservation potential. The independent CPA may be prepared by a consultancy firm, such as the Energy Trust of Oregon or other qualified third-party source, as determined by the Company. The independent CPA should inform the Company's integrated resource plan ("IRP") process and shall be filed along with the Company's IRP.
- e. Every year, the Company shall propose an annual conservation target and demonstrate that the target represents acquisition of all available cost-effective conservation resources.
- f. The Company shall file an annual conservation plan by December 1 of each year. The annual conservation plan shall describe anticipated DSM activities for the upcoming calendar year and how the plan will help the Company achieve its annual conservation target.

- g. The Company shall file an annual conservation report by June 1 of each year. The report shall describe the DSM program's targets and gas savings achieved, and compare actual expenses and forecasted expenses for the previous calendar year.
- h. The Company shall hold Energy Efficiency Advisory Group ("EEAG") meetings quarterly. Such quarterly meetings shall replace the quarterly and semi-annual reports currently required in the Company's Tariff General Schedule G (Energy Efficiency Services and Programs – Residential and Commercial).
- i. The Company shall provide drafts of annual reports, annual plans, and all tariff adjustments to the EEAG for review at least 20 calendar days prior to filing.
- j. The Company's industrial customers shall be excluded from the terms and conditions of paragraph 20 of this Agreement.

**H. ISWC Accounting Methodology**

21 The Parties agree that the Company shall use the following ISWC accounting methodology in its Commission Basis Reports ("CBRs"):

- a. The Company shall use the format provided in its response to WUTC DR 7 in this docket and place average of monthly averages ("AMA") account balances into one of the following categories: current assets, current liabilities, average invested capital, and investments. The Company then shall categorize the investment AMA amounts as Washington, Oregon or non-operating.

- b. The Company shall include construction work in progress (CWIP) in the non-operating category for purposes of allocating ISWC among Washington, Oregon and non-operating categories.
- c. The Company shall use this format and categorization for accounts when calculating the ISWC amount to add to rate base in the CBRs.

**I. Special Contract Feasibility Study**

22 The Parties agree that the Company shall conduct an updated feasibility study for its special contracts within three years after the effective date of new rates in this proceeding.

**J. Interruptible Usage**

23 The Parties agree that the Company shall track for informational purposes the unauthorized gas use of interruptible customers during curtailments.

**K. Low Income Bill Assistance Program**

24 The Parties agree to the following provisions related to the Company's General Schedule J, Gas Residential Energy Assistance Tariff ("GREAT") Program:

- a. The Company shall establish an Advisory Group for the GREAT Program ("Advisory Group"), consisting of NW Natural, TEP, Public Counsel, Staff, and agency representatives and other interested stakeholders.
- b. The Company shall establish the Advisory Group by September 1, 2019, with the first meeting to be held by November 1, 2019, and subsequent meetings held at least quarterly until December 31, 2020, and at least twice a year after January 1, 2021.
- c. The Company shall adopt the following goals for the Advisory Group: to keep customers connected to natural gas service; to provide assistance to

more customers than are currently served; to lower the energy burden of GREAT Program participants; and to collect data necessary to assess GREAT Program effectiveness and to inform ongoing policy discussions.

- d. The Advisory Group shall present an action plan to improve the GREAT Program by July 1, 2020.
- e. The Company shall work in consultation with the Advisory Group to produce a low-income evaluation study to assess the need for low-income assistance among the Company's Washington customers, including low-income weatherization, and to identify ways to improve the GREAT Program to better align with the goals set forth in paragraph 24.c. of this Agreement. The Company shall not seek recovery of the costs of the low-income evaluation study from customers.

**L. Discovery Process**

25 The Parties agree that the discovery process of this proceeding is suspended immediately, except that the discovery process of this proceeding relating to the Company's proposed decoupling mechanism shall continue as set forth in the procedural schedule in Order 03 of this proceeding or any subsequently issued Commission order that affirmatively addresses a discovery cut-off date.

**IV. EFFECT OF THE SETTLEMENT AGREEMENT**

26 Binding on Parties. The Parties agree to support the terms of this Agreement throughout this proceeding and recommend that the Commission issue an order approving and adopting this Agreement. The Parties understand that this Agreement is subject to Commission approval. If the Commission does not accept this Agreement, then the Parties

shall be free to assert their pre-settlement positions and agree that neither this Agreement nor any statements or admissions contained herein shall be admissible or used for any purpose in this docket or any other proceeding for any purpose; provided, however, that any Party may disclose the existence or terms of this Agreement when required to do so by law.

27           Settlement is a Compromise. The Parties agree that this Agreement represents a compromise of the positions of the Parties.

28           Negotiations not Admissible. Conduct, statements, and documents disclosed while negotiating this Agreement shall not be admissible evidence in this or any other proceeding except in any proceeding to enforce the terms of this Agreement or any Commission Order adopting those terms.

29           Integrated Terms of Settlement. The Parties have negotiated this Agreement as an integrated document. Accordingly, the Parties recommend that the Commission adopt this Agreement in its entirety. Each Party has participated in the drafting of this Agreement, so it should not be construed in favor of, or against, any particular Party.

30           Procedure. The Parties shall cooperate in submitting this Agreement promptly to the Commission for acceptance. Each Party shall make available a witness or representative in support of this Agreement. The Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Agreement and to supplement the record accordingly.

31           Reservation of Rights. Each Party may offer into evidence its pre-filed testimony and exhibits as they relate to the issues in this proceeding, together with such evidence in support of this Agreement as may be offered at the time of the hearing on this Agreement. If the Commission rejects all or any material portion of this Agreement, or adds additional

material conditions, each Party reserves the right, upon written notice to the Commission and all Parties to this proceeding within seven (7) days of the date of the Commission's Order, or within any shorter notice period the Commission may require under WAC 480-07-750(2)(b)(ii), to withdraw from this Agreement. If any Party exercises its right of withdrawal, this Agreement shall be void and of no effect, and the Parties will support a joint motion for a procedural schedule to address the issues that would otherwise have been settled herein.

32           No Precedent. The Parties enter into this Agreement to avoid further expense, uncertainty, and delay. By executing this Agreement, no Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at this Agreement, and, except to the extent expressly set forth in this Agreement, no Party shall be deemed to have agreed that this Agreement is appropriate for resolving any issues in any other proceeding.

33           Public Interest. The Parties agree that this Agreement is in the public interest.

34           Execution. This Agreement may be executed by the Parties in several counterparts and as executed shall constitute a single settlement agreement.

Entered into this 23rd day of May 2019.

Northwest Natural Gas Company:

By:

  
\_\_\_\_\_  
Zachary D. Kravitz  
Director, Rates and Regulatory Affairs

Staff of the Washington  
Utilities and Transportation  
Commission:

By:

\_\_\_\_\_  
Jennifer Cameron-Rulkowski  
Assistant Attorney General

Public Counsel:

By:

\_\_\_\_\_  
Lisa W. Gafken  
Assistant Attorney General  
Public Counsel Unit Chief  
Nina Suetake  
Assistant Attorney General

AWEC:

By:

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Chad M. Stokes  
Cable Huston LLP

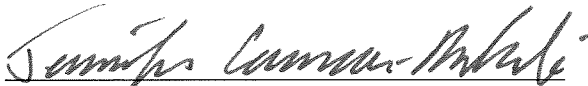
The Energy Project:

By:

\_\_\_\_\_  
Simon J. ffitch, Attorney for TEP



Northwest Natural Gas Company: By: \_\_\_\_\_  
Zachary D. Kravitz  
Director, Rates and Regulatory Affairs

Staff of the Washington  
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Assistant Attorney General

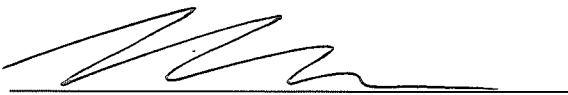
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