BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. NORTHWEST NATURAL GAS COMPANY, Respondent.	DOCKET UG-_____

NORTHWEST NATURAL GAS COMPANY

Direct Testimony of Kyle T. Walker

REVENUE REQUIREMENT

Exh. KTW-1T

December 18, 2020

DIRECT TESTIMONY OF KYLE T. WALKER

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I. INTRODUCTION AND SUMMARY

Q. Please state your name, address, and position with Northwest Natural Gas Company.

A. My name is Kyle T. Walker. My business address is 250 S.W. Taylor Street, Portland, Oregon 97204. My current position is Rates/Regulatory Manager in the Rates and Regulatory Affairs Department of Northwest Natural Gas Company ("NW Natural" or the "Company").

Q. Please state your educational background and experience.

A. I received a Bachelor of Science Degree in Business Administration with an emphasis in Finance from Oregon State University in 2005 and a Masters of Business Administration from Willamette University in 2010. In addition, I received an accounting certificate from the University of Washington and I am a licensed certified public accountant in the State of Oregon. Prior to my employment with NW Natural, I held positions at the Bonneville Power Administration ("BPA"), including Risk Analyst, Derivative Accountant, Internal Auditor and Finance Analyst. Prior to BPA, I was a Credit Manager for Wells Fargo. In early 2015, I started at NW Natural as a Rates/Regulatory Analyst and was later promoted to Manager. In my current role, I am responsible for regulatory reporting, revenue requirement, ratemaking and other regulatory duties as assigned.

Q. What is the purpose of your testimony?

A. I present the analysis of test year results (October 1, 2019 through September 30, 2020) (the "Test Year"), describe the Company's proposed Test Year adjustments, proposed multi-year adjustments and present the calculation of the revenue requirement increase requested by the Company in this proceeding.

Q. Please summarize the analysis of Test Year results and adjustments to those results.

A. As shown in my accompanying Exh. KTW-2, the Test Year results in column (a) indicate an overall rate of return on rate base ("ROR") of 5.58 percent at line 16, and a corresponding rate of return on equity ("ROE") of 6.68 percent on line 17. After adjusting the Test Year results for normal weather and other normalized restating and proforma amounts in column (b), the overall ROR is 4.82 percent, with a corresponding ROE of 5.12 percent. To achieve the ROE of 9.4 percent as recommended by Mr. Kravitz (Exh. ZDK-1T) and the ROR of 6.913 percent presented in Mr. Wilson's testimony (Exh. BJW-1T), the analysis shows that an increase in revenue of $6,255,810 is required in the first rate effective year starting November 1, 2021 ("Year One"), as shown in column (d), line 1.

Q. Please summarize the results of the analysis for the second rate effective year, starting November 1, 2022 ("Year Two").

A. Proforma adjustments are added during the first rate effective year, as shown in column (f) of Exh. KTW-2 to be combined with the results of the first rate effective year in column (g) for the second Test Year adjusted results. The ROR for Year Two adjusted results of 5.95 percent is shown in column (g), line 16. The overall ROE for the Year Two adjusted results is 7.43 percent, seen on line 17 of column (g). The analysis shows a revenue increase of $3,150,116 is needed for the Company to retain a ROR and ROE of 6.913 and 9.4 percent, respectively.

II. TEST YEAR RESULTS

Q. What is the purpose of this section of your testimony?

A. The purpose of this section of testimony is to present the Company's financial results for its Washington operations for the Test Year. The Test Year that is being evaluated by the Company to determine the need for a rate increase is the 12-months ended September 30, 2020. The determination of actual results for the Test Year is primarily accomplished by a state allocation of revenue and expense items, as well as the construction of rate base for the period. I will refer to Exh. KTW-3, which I have prepared for the explanation of the Test Year results.

Q. Why was the 12-months ended September 30, 2020 chosen as the Test Year for this rate case?

A. The period was chosen because 1) it provided data that included full quarterly information for accounting purposes, and 2) it was the most recent data available for the preparation of our rate case filed at year-end 2020.

Q. Please describe the components of Exh. KTW-3.

A. Page 1 of the exhibit presents the results of operations for the entire gas utility for the Test Year in column (a), and the results of operations for Washington in column (b). The Company has two gas utility jurisdictions, Washington and Oregon.

Pages 2 and 3 of Exh. KTW-3 show the allocation of system operations and maintenance ("O&M") expense to Washington and Oregon by Federal Energy Regulatory Commission ("FERC") account. Allocation methodology is discussed later in my testimony.

Page 4 is a listing of all allocation factors used to allocate costs between the Company's two gas utility jurisdictions.

Page 5 displays the income tax calculation for Washington and system in the Test Year. Furthermore, it identifies the book and income tax permanent differences, federal tax credits as well as the amortization of excess deferred income taxes ("EDIT") that arose from the 2017 Tax Cuts and Jobs Act ("TCJA").

Pages 6 and 7 display the Test Year system and Washington rate base, including deferred taxes and other rate base items such as storage gas, customer advances and leasehold improvements.

The last page, page 8, of Exh. KTW-3 shows the proposed cost of capital, including long- and short-term debt and common equity, used in the analysis of revenue requirement, as well as revenue sensitive costs such as uncollectible expense, Washington utility tax and the Washington Utilities and Transportation Commission ("WUTC") regulatory fee.

Q. Please explain operating revenues and cost of gas on page 1 of Exh. KTW-3.

A. The operating revenues on lines 1 through 4 and the gas cost on line 5 reflect 12-month ended results through September 2020. The revenues for Washington are almost all direct; that is, they are the actual revenues generated from Washington during the 12-month Test Year. The exception is the allocation of utility property rental income under Miscellaneous Revenues, which are allocated between Washington and Oregon. The gas costs for Washington are calculated to correspond precisely to the gas costs collected in billing rates over the period, with inclusion of gas cost deferrals, to ensure the actual costs incurred are presented.

Q. Please explain operating expenses and taxes on page 1 of Exh. KTW-3.

A. Line 6 identifies uncollectible expense and line 7 represents other O&M Expense. There are substantial common costs within O&M expense, therefore, it is necessary for a large number of system amounts to be allocated to both Washington and Oregon.

Lines 9 and 10 of page 1 represent the federal income taxes and Oregon excise taxes reported for the Test Year on a system and Washington basis. Page 5 of Exh. KTW-3 shows the derivation of the income tax expense for Washington. Net Operating Revenues excluding income taxes was used as the basis of the calculation of the Washington Test Year tax provision, and the interest deduction to that amount was taken as the cost of long-term and short-term debt multiplied by the proportion of rate base supported by the debt components. Additionally, an allocation of permanent tax differences and federal tax credits were included in the provision calculation, as well as ongoing EDIT amortization.

Line 11 details the system and Washington expenses for property taxes during the Test Year. The Washington amount reflects the direct assignment of property taxes incurred.

Other Taxes on line 12 include franchise taxes and WUTC regulatory fee, which are assigned directly to each jurisdiction. Payroll Taxes are allocated using a payroll factor generated in the O&M expense allocation model that reflects the weighted average of all other cost allocations as they were used for accounts containing payroll expense. Miscellaneous other taxes are almost all directly assigned.

Q. Please explain depreciation and amortization expense and rate base on page 1 of Exh. KTW-3.

A. Depreciation and Amortization on line 13 can be explained in conjunction with the determination of system and Washington Total Rate Base on line 16, which are detailed on pages 6 and 7 of Exh. KTW-3. The allocation methodology of gross plant in rate base applies consistently to the allocation of depreciation and amortization expense and accumulated depreciation in rate base. As with O&M expense, the use of direct assignment is the default approach, and is applicable to the allocation of production, non-storage transmission, and distribution plant. Intangible plant, namely computer software, is allocated using all customers due to its service to customers generally. Storage and storage transmission plant is allocated on the basis of firm volumes, insofar as it is considered a substitute to pipeline capacity. Compressed Natural Gas and Liquefied Natural Gas refueling facilities (non-storage) are allocated using the 3-factor approach, due to their contribution to various Company activities. General plant is allocated using a 3-factor approach.

The other elements of rate base are 1) cushion gas in storage which, following the storage plant, is allocated on firm volumes; 2) customer advances, which are directly assigned; 3) unamortized, or net, leasehold improvements, which have been allocated on a 3-factor approach for improvements in our One Pacific Square telemetry center, 250 Taylor operations center, microwave communication towers and the Company's backup data center; and 4) deferred taxes, which are directly assigned in the case of state deferred taxes and allocated on the basis of percentage of total accumulated depreciation for federal deferred taxes, after grossing up for the effect of state deferred taxes on the federal amount.

Q. Please explain lines 17 and 18 on page 1 of Exh. KTW-3.

A. For system results in column (a) and Washington-specific results in column (b), line 17 represents the overall ROR using the Net Operating Revenue on line 15 divided by the Total Rate Base on line 16. Line 18 is the resulting ROE when the debt cost components of the capital structure are removed from the overall return.

Q. Please describe the allocation methodology used to arrive at the Washington Test Year results summarized in Exh. KTW-3.

A. NW Natural's state allocation methodology for ratemaking has been consistently applied in all Washington and Oregon general rate cases since its original implementation in 2000. The Company's method to allocate costs begins with an initial identification of direct costs, with a direct assignment of those costs to the appropriate jurisdiction. The remaining costs are then considered with respect to specific "drivers," or elements such as volumes or customers that have a causative effect on costs. If a cost is related to a particular driver, it is allocated on that basis. Lastly, if there is a common cost with a mix of drivers, it is allocated on the basis of a multi-part allocation factor, called 3-factor. This 3-factor allocation is composed of the average of 1) the proportion of one jurisdiction's directly assigned gross plant to the system total, 2) the proportion of one jurisdiction's number of customers to the system total, and 3) the proportion of employees directly assigned to the system total.

There are 25 primary allocation factors available for use in assigning O&M expense, as shown on page 4 of Exh. KTW-3. Even though the number is somewhat high when considering the desired simplicity of a method, a review of the nature of the factors shows that most are just refinements of the drivers typically relied on, namely volumes and customers.

System and jurisdictional O&M as shown on pages 2 and 3 of Exh. KTW-3 indicates the total amounts of O&M expense allocated to each state, and the overall percentage of O&M expense allocated to Washington of 10.40 percent. These total O&M expense amounts include uncollectible expense, so when returning to the results of operations on page 1, lines 6 and 7 represent a breakout of the total O&M expense.

III. TEST YEAR RESTATING ADJUSTMENTS

Q. What is the purpose of this section of your testimony?

A. In this section, I describe the restating adjustments the Company has made to the Test Year results to annualize changes that occurred during the period that are known and measurable. In addition, restating adjustments weather normalize Test Year results. I will refer to Exh. KTW-4, which I have prepared for the explanation of the restating adjustments.

Q. Please describe Exh. KTW-4.

A. Page 1, columns (a) through (k) of Exh. KTW-4 show the individual restating adjustments to Test Year results. Total restating adjustments to Test Year results are in column (l). Page 2 of Exh. KTW-4 displays the federal income tax calculation for each individual restating adjustment in a matching columnar format to page 1.

Q. Please describe the adjustments shown in column (a) on page 1 of Exh. KTW-4.

A. Column (a) on page 1 adjusts the company's revenues and gas costs for the following items: 1) residential and small commercial usage is normalized to reflect normal weather; 2) usage for industrial and large commercial customers is annualized; 3) delivered volumes are priced to reflect permanent rates currently effective in Washington (Docket UG-200801, effective November 1, 2020)[1]; and 4) the cost of gas expense is adjusted to reflect the gas costs currently embedded in rates.

Q. Please explain why the normalized volumes are then priced at rates currently effective in Washington.

A. Pricing of the volumes at current rates is done to eliminate the effects of temporary increments in rates and to present revenues and costs at rates which are currently in effect. Due to rates changing during the course of the Test Year, re-pricing is necessary to accurately reflect current rate levels and gas costs.

Q. Please describe how this pricing is achieved.

A. The pricing is accomplished by multiplying normalized volumes by the currently effective Washington rates for base, commodity, and pipeline capacity tariff rates. This is performed for all volumes and rates by each individual rate schedule.

Distribution capacity charges and sales service storage charges for large volume non-residential sales and transportation customers are calculated by multiplying the applicable current Maximum Daily Delivery Volume (MDDV) by the currently effective rates for each month of the Test Year.

Customer charges (the fixed portion of a customer's bill) are calculated by multiplying the September 30, 2020 number of customers by the applicable tariff

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[1] Permanent rates approved in UG-200801 are the same rates approved in the Company's last general rate case in UG-181053.

customer charge[2]. This is performed for all customers and monthly charges by each individual rate schedule. This calculation is performed for each month of the Test Year and the annual total is added to the result of the normalized volumes pricing to derive the total normalized revenue reflecting current rates.

Q. How are industrial and large commercial customer revenues incorporated into the Test Year?

A. The volumes used for the industrial and large commercial customers for the restating adjustment are the actual volumes consumed during the 12 months ended February 29, 2020.

Q. Why did you use the 12-months ended February 29, 2020?

A. Due to the usage anomalies from the COVID-19 global pandemic, I used the volumes from the 12 months preceding the impact of COVID-19 as a normalizing adjustment.

Q. How are special contract revenues incorporated into the Test Year?

A. NW Natural has a single customer in Washington that is served under a special contract. The transportation revenue for our special contract customer is included in the Test Year results to provide its contribution to overall revenue requirement.

Q. Please explain how the cost of gas was calculated for the Test Year.

A. The total cost of gas is on page 3 of Exh. KTW-4. Cost of gas for NW Natural can be segmented into demand costs and commodity costs. Demand costs reflect relatively fixed monthly charges that are incurred for pipeline transportation service from domestic and Canadian pipelines. Commodity costs reflect expenses for obtaining the

[2] Large commercial and industrial customers used the actual number of customers for the 12 months ended February 29, 2020.

physical gas. Each year the Company submits for approval its Purchased Gas Cost Adjustment (PGA) filing that revises billing rates to include pricing for demand and commodity costs for the upcoming year. The ability to adjust prices on an annual basis for prevailing pricing of gas costs allows for the exclusion of the gas cost pricing issue from general rate cases.

Gas costs were developed using the gas cost rate elements included in the current tariff billing rates for sales rate schedules. This ensures an appropriate level of gas cost in relation to the Test Year normalized revenues.

In summary, pricing normalized volumes at current revenue rates adjusted to exclude temporary increments, and calculating costs built from the gas cost increments that are currently incorporated into those revenue rates ensures that a precise matching of revenues and gas costs is achieved in the adjustment.

Q. Please explain the other restating adjustments on page 1 of Exh. KTW-4.

A. The adjustment in column (b) serves to set many of the miscellaneous revenue amounts to a three-year average for actual results, using a 12-month ending February time period, to partially remove any anomalies for the items during the Test Year. Using 12 months ended February 2020, 2019 and 2018 removes any anomalies from the COVID-19 pandemic. If the three-year history for an item shows a trend up or down, the most recent year is used as the normal amount. Page 4 of Exh. KTW-4 provides support for the adjustment in column (b).

Column (c) adjusts the Test Year expenses for employee bonuses. The amount accrued during the year is removed and replaced by the three-year average of amounts paid. Page 5 of Exh. KTW-4 provides support for the adjustment in column (c).

Column (d) serves to replace the property taxes expenses during the Test Year with the amount most recently paid. Page 6 of Exh. KTW-4 provides support for the adjustment in column (d).

Column (e) adjusts uncollectible expenses to reflect the average of the 12-months ended February 29, 2020, February 28, 2019 and February 28, 2018 of actual net write-off percentages, mitigating any anomaly that may have been present during the Test Year due to COVID-19. Page 7 of Exh. KTW-4 provides support for the adjustment in column (e).

Column (f) is an adjustment to rate base for working capital, which generates a return on investments in storage gas inventory and other critical assets necessary to perform the utility function. The Company has continued use of the settled working capital model from its previous general rate proceeding, UG-181053. Page 8 of Exh. KTW-4 displays the adjustment in column (f).

Column (g) adjusts O&M to reflect disallowances of marketing, promotional, and customer communications expenses for regulatory purposes. Page 9 of Exh. KTW-4 provides support for the adjustment in column (g).

Column (h) adjusts O&M and rate base to include actual ordinary claims for the Test Year, replacing the expense accrual activity that is used for claims reserve accounting. The adjustment also serves to include a three-year average of extraordinary claims. The use of the three-year average is meant to normalize the expense, which corrects for year-to-year anomalies in expense levels. Page 10 of Exh. KTW-4 provides support for the adjustment in column (h).

Column (i) adjusts O&M to provide recovery of estimated rate case expenses assuming a rate case frequency of three years. Rate case expenses for this case include amounts for consultants for ROE and outside legal assistance in processing the case. Page 11 of Exh. KTW-4 provides support for the adjustment in column (i).

Column (j) adjusts O&M and rate base for additional amounts that were not expensed through the clearing process. The clearing process involves expensing original costs to holding, or clearing accounts, which are then attributed to final O&M and capital accounts based on payroll or other activity. On a calendar year basis, utilization rates are adjusted to assure that clearing accounts are brought to zero. For the 12 months ended September, however, it is normal to have a slight mismatch in the amounts subject to clearing and the amounts cleared due to timing. Page 12 of Exh. KTW-4 provides support for the adjustment in column (j).

Column (k) adjusts O&M for costs to and from the gas utility's parent company, NW Natural Holding Company. The adjustment ensures costs related to financial administration and corporate governance allocated to the Washington utility reflect an annualized amount. Page 13 of Exh. KTW-4 provides support for the adjustment in column (k).

Column (l) provides a subtotal of the effects of all the restating adjustments.

IV. TEST YEAR PROFORMA ADJUSTMENTS

Q. What is the purpose of this section of your testimony?

A. In this section, I describe the proforma adjustments the Company has made to the Test Year results to include capital and expenses that will be used and useful prior to the rate effective period. As described above, the Company is using the 12-months ended

September 30, 2020 as the Test Year in this proceeding with rate effective dates of November 1, 2021 (Year One) and November 1, 2022 (Year Two). I will refer to Exh. KTW-5, which I have prepared for the explanation of the Test Year (first rate effective period) proforma adjustments.

Q. Please explain each adjustment on page 1 of Exh. KTW-5.

A. Column (m) adjusts payroll expense to include: 1) costs attributable to Test Year average employee counts, and 2) the wages for those employees given the known and measurable increases that have occurred and will occur due to Consumer Price Index adjustments, bargaining unit contract terms, and step progressions for employees. Pages 3 and 4 of Exh. KTW-5 provide support for the adjustment in column (m).

Column (n) adjusts health and life insurance expenses allocated to O&M for end-of-period premium rates and employee counts. Payroll taxes are adjusted for normalized payroll as provided in adjustment (m). Pension expense is adjusted to reflect the expense in 2021. Page 5 of Exh. KTW-5 provides support for the adjustment in column (n).

Column (o) adjusts O&M expense to fully capture the Washington-allocated cost of the Company's new 250 Taylor operations center.[3] Page 6 of Exh. KTW-5 displays the adjustment for column (o).

Column (p) adjusts utility plant in service, accumulated depreciation and depreciation expense for discrete capital projects that are estimated to be used and useful by the first rate effective period of November 1, 2021, but were not complete at

[3] See Mr. Davilla's exhibit (Exh.TFD-2) for further details on the 250 Taylor adjustment

the end of the Test Year.[4] Net book value is used for the adjustment at the rate effective date. Page 7 of Exh. KTW-5 provides support for the adjustment in column (p).

Column (q) adjusts accumulated deferred income taxes that represents one half of the amount of EDIT to be amortized over the next three years. Three years were used in the Company's previous rate case. Page 8 of Exh. KTW-5 provides support for the adjustment in column (q).

Column (r) adjusts depreciation and amortization expense to align with an expense level based on gross plant at the end of the Test Year. Page 9 of Exh. KTW-5 provides support for the adjustment in column (r).[5]

Column (s) adjusts all components of rate base to align with end of Test Year amounts. These components include utility plant in service, accumulated depreciation, storage gas, aid in advance of construction (customer contributions), leasehold improvements and accumulated deferred income taxes. Page 10 of Exh. KTW-5 provides support for the adjustment in Column (s).

Column (t) adjusts the EDIT amortization amount that is currently in rates from $400,000 per year to $375,000, before applicable income tax or revenue sensitive gross up. Page 11 of Exh. KTW-5 and the details further below in my testimony provide support for the adjustment in Column (t).

Column (u) provides a subtotal of the effects of all the Test Year proforma adjustments.[6]

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[4] See Mr. Kravitz's Direct Testimony (Exh. ZDK-1T) for detail on the proposed multi-year rate plan.
[5] Depreciation rates used were adopted in UG-180251.
[6] Exh. KTW-6 presents the projects that are included within the proforma adjustments and the references to testimony in this proceeding.

Q. What are the primary differences between income tax expense calculated using only the federal statutory rate of 21 percent and the income tax expense included in the Test Year results?

A. The primary differences result from historical regulatory income tax flow-through items related primarily to tax benefits that were originally flowed through to customers prior to 1981 and the regulatory benefits of EDIT amortization that were established as a result of federal tax reform in 2017.

Q. What are the historical regulatory income tax flow-through items?

A. The historical regulatory flow-through items relate to accelerated income tax depreciation benefits that occurred prior to 1981 and plant removal costs for income tax. The amortization of these items is included as previously authorized in UG-080546, Order 04, paragraph 16. The amortization is anticipated to conclude in calendar year 2027.

Q. What are the regulatory benefits of EDIT, associated with 2017 federal income tax reform, that are included in income tax expense?

A. UG-181053, Order 06, page 27, paragraph 72 concluded that NW Natural's Plant EDIT balance for Washington customers was $14.592 million. This balance began to amortize for the benefit of customers as a reduction of income tax expense at an annual rate of $400 thousand as of November 1, 2019.

The Plant EDIT amortization benefits continue to be provided to customers subject to the timing limitations of the average rate assumption method (ARAM). The Plant EDIT amortization for the benefit of customers as a reduction of income tax expense beginning November 1, 2021 is now $375 thousand annually.

V. ADJUSTED TEST YEAR RESULTS

Q. What is the total effect of the above Test Year restating and proforma adjustments on the Company's actual results of operations for the Test Year?

A. Exh. KTW-7 presents the Company's results of operations for the Test Year (column (a)), the resulting restating and proforma adjustments described in the previous two sections (column (b)), the results for the Test Year normalized and adjusted at present rates (column (c)), the proposed increase to revenues to achieve the Company's requested ROR (column (d)) and the results for the Test Year at the proposed rates (column (e)).

Q. At what level does the analysis suggest setting revenue requirement for the Test Year?

A. As shown on Exh. KTW-7, column (e), line 4 proposes a revenue requirement of $84.9 million, or an incremental amount of revenue requirement of $6,255,810, as shown in column (d), line 1. The proposed revenue requirement is based on a ROR on line 16 of column (e) of 6.913 percent and a ROE on line 17 of 9.4 percent.

VI. MULTI-YEAR PROFORMA ADJUSTMENTS

Q. What is the purpose of this section of your testimony?

A. In this section, I describe the Multi-Year proforma adjustments the Company has made to the Year Two Test Year results to include capital and expenses that will be used and useful prior to the second rate effective period. As described above, the Company is using the 12-months ended September 30, 2020 as the Test Year in this proceeding with rate effective dates of November 1, 2021 (first rate effective period) and November 1, 2022 (second rate effective period). The rate increase that is required for the Company to earn its proposed 9.4 percent ROE is an incremental $3.2 million for the second rate effective period. I will refer to Exh. KTW-8, which I have prepared for the explanation of the adjustments.

Q. Please explain the adjustment on page 1 of Exh. KTW-8.

A. Column (w) adjusts utility plant in service, accumulated depreciation, depreciation expense and O&M expense. These adjustments represent discrete projects that are estimated to be used and useful by November 1, 2022. The O&M adjustment is related to the incremental ongoing costs associated with the Company's Horizon 1 project, further explained in the Direct Testimony of Mr. Downing (Exh. JRD-1T). Page 3 of Exh. KTW-8 provides support for the adjustment in column (w).

The combined adjustments for the second rate effective year is in column (x).[7]

Q. Do any of the proforma adjustments have offsetting benefits that are netted against the costs?

A. Yes, the depreciation expense associated with our current SAP system will cease when the Horizon 1 project is used and useful. The Washington-allocated cost savings of $159 thousand per year has been netted against the depreciation expense of the Horizon 1 project. Additionally, as described in Mr. Downing's Testimony, $254 thousand of Washington allocated O&M expense has been netted against the ongoing O&M amount included in revenue requirement.[8]

[7] Exh. KTW-6 presents the projects that are included within the proforma adjustments and the references to testimony in this proceeding.

[8] This is the Washington allocation of savings based on $6.2 million in system gross ongoing O&M expense for Horizon 1 less $0.7 million for replaced or retired applications and $1.5 million in cost savings for diverse Horizon 1 benefits. JRD-1T.

VII. ADJUSTED MULTI-YEAR RESULTS

Q. What is the total effect of the above multi-year proforma adjustment on the Company's results of operations?

A. Exh. KTW-9 presents the Company's multi year adjustments starting with the year two Test Year (column (f)), year two adjustments as described in the previous section (column (g)), the resulting year two Test Year adjusted results (column (h)), the proposed year two increase to revenues to achieve the Company's requested ROR (column (i)) and the results for the year two Test Year at the proposed rates (column (j)).

Q. At what level does the analysis suggest setting revenue requirement for the year two Test Year?

A. As shown on Exh. KTW-9, column (j), line 4 proposes a revenue requirement of $84.9 million, or an incremental amount of revenue requirement of $3,150,116, as shown in column (i), line 1. The proposed revenue requirement is based on a ROR on line 16 of column (j) of 6.913 percent and a ROE on line 17 of 9.4 percent.

VIII. CONCLUSION

Q. Please summarize the results of your analysis and proposed revenue increases for your two-tiered request.

A. The revenue increase required to allow the Company its requested ROE of 9.4 percent in Washington for Year One is $6,255,810, and Year Two is $3,150,116 as shown in column (d) and (h) of Exh. KTW-2. These amounts, net of income taxes and other revenue sensitive expenses, are added to the Company's adjusted results, resulting in column (e) and (i) for the two rate effective periods. Column (e) and (i) represents the normalized and adjusted results for the Company at the proposed rates, with an achieved ROE of 9.4 percent.

Q. Does this conclude your direct testimony?

A. Yes.

IX. LIST OF EXHIBITS