

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of

NORTHWEST NATURAL GAS
COMPANY DBA NW NATURAL

Petition for Accounting Order for Approval
of Depreciation and Amortization of Rates
for Investment in Certain Software

DOCKET UG-_____

PETITION OF NW NATURAL

I. INTRODUCTION

1 Pursuant to WAC 480-07-370 (3)(b) and 480-90-203, Northwest Natural Gas Company (“NW Natural” or “the Company”) files this petition (“Petition”) with the Washington Utilities and Transportation Commission (the “Commission”) seeking authorization for an accounting petition to use a ten-year amortization period for its capitalized cloud-based software license and implementation costs that reflect the useful life of the first phase of the Company’s Horizon project, which is an upcoming seven year initiative to upgrade NW Natural’s technology architecture. As described more fully below, NW Natural currently amortizes cloud-based software over the life of the underlying contract for Information Technology & Service (“IT&S”) cloud-based software investments. With this application, the Company is not requesting to impact customers’ rates, or conduct a prudence review at this time.

2 NW Natural is a natural gas utility and public service company doing business in the State of Washington and is subject to the jurisdiction of the Commission regarding rates, service, and accounting practices. The Company’s principal place of business is 250 SW Taylor Street, Portland, Oregon 97204-3038.

II. COMMUNICATION

3 Communications regarding this Petition should be addressed to:

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250 SW Taylor Street
Portland, Oregon 97204-3038
Telephone: (503) 610-7330
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4 In addition, NW Natural respectfully request that all data requests be addressed to:

e-Filing for Regulatory Affairs
eFiling@nwnatural.com

III. BACKGROUND

5 The purpose of depreciation and amortization expense is to provide for recovery of the original cost of plant investments less estimated net salvage over the useful life of the asset by means of an equitable plan of charges to operating expense.

6 The Commission is empowered to ascertain and determine the proper and adequate rates of depreciation of the Company's assets used in the rendering of retail natural gas service under the provisions of RCW 80.04.350. Each public utility under the Commission's jurisdiction is required to conform its depreciation or retirement accounts to the rates so prescribed by the Commission. The Commission may make changes in such rates of depreciation from time-to-time as the Commission may find necessary.

7 NW Natural updated its depreciation rates in Docket No. UG-180251 Order No. 01 with depreciation rates effective November 1, 2018 based on a depreciation study of its plant in service as of December 31, 2015. In that study, capitalized cloud-based software investments (recorded in FERC Account No. 303.7 – Intangible Software) were not on the Company’s books and were therefore not considered. Cloud-based software investments related to Horizon will be appropriately booked to FERC account 303.7.

IV. DESCRIPTION OF HORIZON

8 Technology systems have become increasingly critical to utility operations. Growing security, customer service, and operational demands require ongoing technological innovation that must be implemented both proactively and strategically. In this context, NW Natural’s aging foundational software systems need significant upgrades and replacements as described herein.

9 The Horizon project is a seven-year, two-phase IT&S initiative to implement necessary upgrades to NW Natural’s technology architecture. Each phase (“Horizon 1” and “Horizon 2”) involves a significant foundational project to upgrade a major piece of software tools developed by a single developer.¹

10 Horizon 1’s foundational project is upgrading the current outdated system that manages the Company’s key business functions, such as accounting, operations, human resources, asset management, and field management. This framework for the Company’s essential business functions is known as an enterprise resource planning (“ERP”) platform. NW Natural is upgrading to a new ERP for three central reasons. First, the new ERP will provide the

¹ The developer is SAP (Systeme, Anwendungen and Produkte in der Datenverarbeitung), a German software company and international leader in enterprise software programs.

foundation for the Customer Information Systems (“CIS”) replacement in Horizon 2, as described below, meaning that a durable ERP platform is essential. Second, the existing ERP platform is end-of-life and will no longer be supported by the developer after 2027—meaning that, as a general matter, there will be no repairs or enhancements. Third, the current platform does not adequately support NW Natural’s range of business needs that are necessary to serve customers. Unlike NW Natural’s current ERP, Horizon 1 will be a cloud-based solution. This was the least costly and the most flexible solution, will allow both SAP and non-SAP systems to be hosted in the same environment, and comes with 24/7 support. Horizon 1 will be fully deployed in 2022.

11 Horizon 2’s foundational project involves upgrading and replacing NW Natural’s 21-year old CIS platform. CIS is the integrated framework that manages essential customer-facing functions, such as billing and customer field services. Horizon 2 is expected to begin after Horizon 1 is completed.

12 Together, NW Natural’s ERP and CIS provide the twin frameworks for managing and integrating the Company’s essential business and customer-facing functions, making these two platforms foundational pillars of how NW Natural is able to effectively and efficiently serve customers. In each phase of the Horizon program, the platform upgrade is accompanied by supporting efforts to move or replace other related applications to align with the new platform’s capabilities.

13 By approaching NW Natural’s IT&S needs in a systematic, deliberate, and comprehensive manner, the Horizon program ensures that NW Natural is making prudent and timely investments to ensure efficiency, resilience, and security of its technological foundation, and

will thereby allow the Company to continue to provide safe, adequate, and reliable service to customers.

V. PROPOSED ACCOUNTING TREATMENT

14 In FERC docket No. AI20-1-00, regarding *Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, the FERC adopted accounting guidance consistent with generally accepted accounting principles. The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-15, which aligns the accounting for costs incurred to implement a cloud computing arrangement that is a service contract with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, ASU No. 2018-15 clarifies that an entity obtaining a service contract in a cloud computing arrangement should follow the existing guidance in Accounting Standards Codification (ASC) 350-40 to determine which implementation costs can be capitalized and which costs must be expensed, and further provides that the capitalized implementation costs shall be amortized over the term of the associated arrangement.²

15 Under the provisions of RCW 80.04.350, which authorizes the Commission to determine the proper and adequate rate of depreciation of property used by a public service company, the Commission may ascertain and by order fix the proper and adequate rates of depreciation or retirement of public utility property. Each public utility must conform its depreciation accounts to the rates ordered by the Commission.

² Letter regarding final agency action on “Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract”, FERC Docket No. AI20-1-000.

16 Currently, the accounting guidelines allow a depreciable life for cloud-based investments to align with the service life of the contract. NW Natural is requesting the Commission approve a depreciable life for the Horizon project's cloud-based investment to reflect its expected lifecycle of ten years. If the Commission does not approve the Company's proposal for Horizon's cloud-based software investment, NW Natural would be required to depreciate the investments over the life of the service contract, which could be significantly shorter, in accordance with generally accepted accounting principles and FERC.

17 For administrative and economic efficiencies, the Company prefers to maintain uniform utility accounts, including depreciation rates, across its two state jurisdictions. To maintain consistent depreciation rates, the Company is also submitting a petition request to the Public Utility Commission of Oregon to use a life that reflects the lifecycle of the cloud-based software of the Horizon project, ten years.

18 Concurrently with this filing, NW Natural is filing a request for a general rate revision ("rate case"), which includes further explanation of the Horizon project. In the Company's rate case request, the Company is seeking recovery of Horizon 1 based on a ten-year life for cloud-based assets.

VI. CONCLUSION

19 NW Natural respectfully requests that the Commission issue an Order approving NW Natural to use an amortization period for its cloud-based software investment related to its Horizon 1 project of ten years. NW Natural is not requesting to impact customers' rates at this time. NW Natural will begin utilizing the new depreciation rates when

the project becomes used and useful, as requested in the Company's concurrently filed rate case.

Dated this 18th day of December 2020.

Respectfully Submitted,

/s/ Kyle Walker _____

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