

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of

NORTHWEST NATURAL GAS
COMPANY DBA NW NATURAL

For an Accounting Order Authorizing
Deferred Accounting Treatment of Certain
Start-up Costs Associated with a Major
Information Technology and Services
Project.

DOCKET NO. UG-_____

PETITION

1 Pursuant to WAC 480-07-370(3)(b), Northwest Natural Gas Company (“NW Natural” or “the Company”) petitions the Washington Utilities and Transportation Commission (the “Commission”) for an order authorizing the deferred accounting treatment of the operations and maintenance (“O&M”) start-up costs associated with developing and implementing the first phase of a major information technology and services (“IT&S”) project, known as Horizon. NW Natural seeks to defer these costs from the date of this petition forward, to track and preserve them for separate ratemaking treatment with the Company’s concurrently filed general rate case where the prudence of these costs will be reviewed.

2 In support of this Petition, NW Natural states as follows:

I. NAME OF PETITIONER

3 NW Natural is in the business of furnishing natural gas service within the State of Washington as a public service company and is subject to the regulatory authority of the Commission as to its rates, service, facilities, and practices. Its full name and mailing address for the purposes of this proceeding are:

Northwest Natural Gas Company
c/o Zachary Kravitz
Director of Rates and Regulatory Affairs
250 SW Taylor Street
Portland, OR 97204-3038

4 The name and address of the Company's attorney for purposes of this proceeding are:

Ryan Sigurdson
Regulatory Attorney (WSBA #39733)
250 SW Taylor Street
Portland, OR 97204-3038

II. SUPPORT FOR PETITION

A. Legal Authority

5 The Commission is vested by statute with the authority to regulate, among other things, the rates and accounts of public service companies, including gas companies.¹ WAC 480-07-370(1)(b) allows public service companies to file petitions, including petitions for deferred accounting.² The Commission grants petitions for deferred accounting where “good cause” is shown.³

B. Factual Background

6 Horizon is a seven-year, two-phase IT&S initiative that will provide critically needed upgrades to NW Natural’s outdated technology architecture.⁴ Much of NW Natural’s foundational software architecture is at or nearing the end of its useful life. Horizon seeks to address two central pillars of this architecture, as well as a range of integrated and related

¹ RCW 80.01.040, RCW 80.04.160, RCW 80.28.020; *see also In the Matter of the Petition of Nw. Nat. Gas Co. for an Accounting Order Authorizing Deferred Accounting Treatment of Certain Costs Associated with Environmental Remediation*, Docket UG-110199, Order 01 (June 30, 2011).

² *See* UG-110199, Order 01 ¶ 6.

³ UG-110199, Order 01 ¶ 10; *see also In the Matter of the Petition of Avista Corp. d/b/a Avista Utils. for an Accounting Order Authorizing Deferred Accounting Treatment for Residential and Farm Energy Exchange Benefit Amounts*, Docket UE-071091, Order 01 ¶ 11 (Aug. 29, 2007).

⁴ The Horizon initiative is described in detail in the Company’s pending general rate case filing.

platform upgrades. Horizon has been divided into two phases (“Horizon 1” and “Horizon 2”) to reflect the keystone upgrades central to each phase.

- Horizon 1’s keystone project involves upgrading the current outdated enterprise resource planning (“ERP”) platform. An ERP platform manages the Company’s key business functions, such as accounting, operations, human resources, asset management, and field management.
- Horizon 2’s central project involves upgrading and replacing NW Natural’s 21-year-old Customer Information Systems (“CIS”) platform. CIS is the integrated framework that manages essential customer-facing functions, such as billing and customer field services.

7 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. Crucially, the CIS is operated on top of the ERP platform—meaning that any upgrade to the ERP must occur first, in order to avoid extensive customization and duplication of work (and, by extension, far greater overall expense).

8 NW Natural is now moving forward with developing and implementing Horizon 1, which is expected to be placed in service by October 2022. Once implemented, Horizon 1 is expected to provide important and extensive improvements to the Company’s analytical capability, operational efficiency, safety, and security capabilities. Moreover, the new ERP platform will be able to replace a number of existing independent software programs—helping to consolidate and streamline the Company’s IT&S portfolio.

C. Reasons for Deferral

9 Deferred accounting treatment is appropriate because Horizon 1 entails substantial, one-time start-up costs necessary to develop and implement a crucial part of the Company's IT&S infrastructure. These one-time implementation costs for Horizon 1 do not represent ongoing, annual expenses that would be recovered year after year as part of base rates. Accordingly, NW Natural has not sought recovery of these costs in base rates in its concurrently filed rate case. Absent a regulatory deferral, NW Natural would be required to internalize the entirety of these costs—unjustly penalizing the Company for pursuing crucial infrastructure upgrades necessary for business continuity and the provision of safe and reliable customer service.

10 Authorization of deferred accounting in this case would be consistent with the Commission's recent approval of deferred accounting treatment for Puget Sound Energy's Get-to-Zero technology investments. In that order, the Commission found that deferral of the depreciation expense associated with a major new technology investment was appropriate to avoid earnings erosion between rate cases.⁵ Here, the O&M expenses associated with developing and implementing Horizon 1 are significant, meaning that a lack of opportunity to recover these costs would seriously undermine the Company's ability to earn near its authorized rate of return.

D. Estimate of Amounts

11 NW Natural's planning for Horizon 1 has identified several necessary start-up workstreams that the Company cannot capitalize as part of the overall project. As a result, NW Natural seeks to defer the incremental start-up O&M expenses associated with Horizon 1, which are

⁵ *In the Matter of the Petition of Puget Sound Energy for an Order Authorizing Deferral Accounting and Ratemaking Treatment for Short-life IT/Technology Investment*, Docket UE-190274 *et al*, Final Order 08/05/03 ¶ 441 (July 8, 2020).

expected to entail approximately \$8.4 million in incremental O&M costs on a system-wide basis,⁶ as follows:

- Approximately \$2.9 million required to implement 31 different prerequisite projects, ranging from data cataloging to developing new asset management policies to establishing a series of new security protocols. These prerequisite projects will ensure that NW Natural has the necessary technical processes and policies in place to support the new ERP upgrade.
- Approximately \$1.9 million to complete the data conversion work necessary to transition to the new SAP platform. Moving from one platform to another involves a tremendous quantity of data conversion as the entirety of the Company's existing data and information must be transitioned to operate on the new platform.
- Approximately \$323 thousand to backfill employees. To ensure the success of the project, certain NW Natural employees must dedicate themselves full-time to the implementation of Horizon 1. As a result, the Company is required to retain contractors to fill in for these employees during the Horizon 1 project development, with a 1-month overlap period anticipated to ensure continuity. This 1-month overlap entails approximately \$323 thousand in anticipated incremental expense.
- Approximately \$2.8 million to undertake a rigorous change management process, including employee training. Change management is a crucial part of a major IT&S project's success because a foundational platform shift like the Horizon 1

⁶ This amount translates to approximately \$0.8 million on a Washington-allocated basis.

ERP upgrade involves not only new software, but new job responsibilities and new ways of working. The change management process will provide a deliberate, structured approach to transition individuals, teams, and organizations at all levels of the Company to the new ERP platform. A lack of adequate change management processes is a common source of ERP upgrade failure.

- Approximately \$500 thousand is included in the budget as a reasonable contingency estimate, reflecting the uncertainties still inherent in the development process.

The above figures reflect NW Natural’s best understanding of the anticipated costs, and will be refined further in upcoming procurement processes for Horizon 1.

E. Proposed Accounting

12 NW Natural proposes to accrue estimates of the Horizon 1 O&M start-up costs on the Company’s balance sheet, plus interest at the published FERC rate, for later inclusion in customer rates. In the absence of approval of deferred accounting, NW Natural would record costs associated with the implementation of Horizon 1 in FERC 921 expense accounts. NW Natural proposes to track and defer these costs for review as part of the pending general rate case or a subsequent ratemaking proceeding. These amounts would not, under FERC accounting standards update 2018-15 and FERC order,⁷ be subject to capitalization.

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⁷ Fed. Energy Reg. Comm’n, *Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, Docket No. AI20-1-000 (Dec. 20, 2019).

III. RELIEF REQUESTED

13 NW Natural requests authorization to defer the start-up O&M costs associated with developing and implementing Horizon 1, as described above, plus interest at the Company's allowed rate of return.

14 WHEREFORE, the Company respectfully requests that the Commission enter an order approving deferred accounting treatment for the O&M start-up costs associated with developing and implementing Horizon 1, as described in this Petition.

Dated this 18th day of December, 2020.

Respectfully Submitted,

/s/ Kyle Walker _____

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