BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **NORTHWEST NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET UG-200994** **DOCKET UG-200995** **DOCKET UG-200996** **DOCKET UG-210085**

JOINT TESTIMONY OF

ZACHARY D. KRAVITZ, KYLE T. WALKER, JASON L. BALL, BRADLEY G. MULLINS, AND SHAWN M. COLLINS

In Support of Full Multi-Party Settlement Agreement

EXHIBIT NO. JT-1

July 27, 2021

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I. INTRODUCTION

Q. What is the purpose of this pre-filed joint testimony?

A. This pre-filed joint testimony ("Joint Testimony") recommends that the Washington Utilities and Transportation Commission ("Commission") approve the Full Multi-Party Settlement Agreement ("Agreement") in this case between Northwest Natural Gas Company ("NW Natural" or "Company"), Commission Staff ("Staff"), Alliance of Western Energy Consumers ("AWEC"), and The Energy Project ("TEP") (individually, "Settling Party," and collectively, "Settling Parties"). The Agreement resolves all issues in these proceedings and is a full multi-party settlement pursuant to WAC 480-07-730(3)(a). The only party to this docket that does not join the Agreement is the Public Counsel Unit of the Washington State Office of the Attorney General ("Public Counsel"), which is unopposed to the Agreement.

Q. Please state your names, titles, and the Settling Party you represent in this matter.

A. Our names, titles, and representation are as follows:

- Zachary D. Kravitz, Director, Rates and Regulatory Affairs, NW Natural
- Kyle T. Walker, Manager, Rates and Regulatory Affairs, NW Natural
- Jason L. Ball, Staff
- Bradley G. Mullins, on behalf of AWEC
- Shawn M. Collins, Director, TEP

Q. Mr. Kravitz, please provide information pertaining to your educational

background and professional experience.

A. I am employed by NW Natural as the Director of Rates and Regulatory Affairs and am responsible for the management of all economic regulatory functions at the Company. Please see Exhibit ZDK-1T for testimony describing my education and relevant experience.

Q. Mr. Walker, please provide information pertaining to your education background and professional experience.

A. I am employed by NW Natural as the Manager of Rate and Regulatory Affairs and am responsible for regulatory reporting, revenue requirement, ratemaking, and other economic regulatory functions. Please see Exhibit KTW-1T for testimony describing my education and relevant experience.

Q. Mr. Ball, please provide information pertaining to your educational background and professional experience.

A. My name is Jason L. Ball. I am the Assistant Director in the Energy Regulation Section of the Regulatory Services Division at the Commission, and I serve as the manager for Commission Staff (Staff) testifying in this case. My business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My email address is jason.ball@utc.wa.gov.

I earned a degree from New Mexico State University in 2010 with a dual major in Economics and Government. In 2013, I graduated with honors from New Mexico State University with a Master of Economics degree specializing in Public Utility Policy and Regulation. I joined the Commission in 2013 as a Regulatory Analyst in the Energy Regulation section of the Regulatory Services division.

I have testified in a number of Commission proceedings including the following: PacifiCorp general rate cases (GRCs) in Dockets UE-191024, UE-152253, and UE-140762; the PacifiCorp PCAM review proceeding in Docket UE-170717; Puget Sound Energy (PSE) GRCs in Dockets UE-190529/UG-190530 and UE-170033/UG-170034; PSE's power cost only rate case in Docket UE-141141; Avista Corporation d/b/a Avista Utilities in Dockets UE-200900, UG-200901 and UE-200894 (Consolidated), UE-190334/UG-190335, UE-160228/UG-160229, and UE-1 150204/UG-150205.

Q. Mr. Mullins please provide information pertaining to your educational background and professional experience.

A. I am a consultant and expert witness that represents utility customers in regulatory proceedings before state utility commissions throughout the Western United States. I have sponsored expert witness testimony in regulatory proceeding encompassing a variety of subject matters, including revenue requirement, regulatory accounting, rate development, and new resource additions. In addition to providing regulatory services, I also provide advisory, energy marketing and other energy consulting services.

Q. Mr. Collins, please provide information pertaining to your educational background and professional experience.

A. I am the Director of TEP, a program of the Washington State Community Action Partnership housed at the Opportunity Council in Bellingham, WA. I have been employed by Opportunity Council since 2006. I have been the Director of TEP since August of 2015. Prior to my involvement with TEP, I was the Associate

Director of a division at Opportunity Council responsible for the implementation of a number of weatherization programs benefitting low and moderate-income households throughout northwest Washington State. Additionally, I am an adjunct faculty member for the Institute for Energy Studies, an interdisciplinary program at Western Washington University. I regularly sponsor testimony on behalf of TEP before this Commission.

Q. Please describe the scope of the Agreement and its key aspects.

A. The Agreement reflects the Settling Parties' comprehensive agreement on the issues in this case, and specifically the following items:

- **Multi-Year Rate Plan.** The Settling Parties agree to support NW Natural's proposal for a two-year rate plan, with the first year ("Year One") beginning on November 1, 2021, and the second year ("Year Two") beginning on November 1, 2022. Under the agreed-upon rate plan, the Company's ongoing revenue requirement would increase by $5 million in Year One and by no more than $3 million in Year Two—as compared to the Company's initial request for an increase of $6.3 million in Year One and $3.2 million in Year Two.[1] These amounts are further reduced through rate mitigation measures, described below. The Year Two rate increase would remain subject to refund pursuant to a Year Two review and reconciliation process, as discussed in detail below.

- **Rate of Return ("ROR").** The Agreement provides for an overall ROR of 6.814 percent, down from the Company's proposed ROR of 6.913 percent.[2] While the Settling Parties have agreed to this overall ROR, the Settling Parties do not specify the underlying ROR inputs of return on equity ("ROE"), cost of long-term and short-term debt, or capital structure.

- **Rate Mitigation.** The Settling Parties agree to NW Natural's $2.3 million in proposed rate mitigation measures, including suspension of the historical energy efficiency tariff and two customer credits associated with the sale of the Truck Lot property in Portland, Oregon and property in Astoria, Oregon.[3] However, the Settling Parties agree that two mitigation measures (energy efficiency tariff suspension and the Truck Lot credit) will be spread over the

[1] NW Natural Direct Testimony of David H. Anderson, Exh. DHA-1T at 9:14-15 (Dec. 18, 2020).

[2] NW Natural Direct Testimony of Brody J. Wilson, Exh. BJW-1T at 3:3 (Dec. 18, 2020).

[3] Anderson, Exh. DHA-1T at 9:20-10:6; NW Natural Direct Testimony of Zachary D. Kravitz, Exh. ZDK-1T at 21:1-2 (Dec. 18, 2020).

two years of the rate plan, rather than one year as initially proposed by the Company.[4]

- **Rate Spread.** The Settling Parties agree to a detailed rate spread proposal. The percent-of-margin impact for each customer schedule is provided in Attachment 3 to the Agreement.

- **Conservation Potential Assessment ("CPA") Deferral.** The Settling Parties agree that NW Natural's Petition for an Accounting Order Authorizing Deferred Accounting Treatment of CPA costs[5] should be approved by the Commission and that the actual costs included in the deferral account should be amortized to all customers on an equal percent of margin basis over one year through a separate, temporary schedule in Year One. The deferred CPA costs are currently estimated to be $148 thousand. Additionally, because the Company will continue to incur CPA costs on an on-going biennial basis, the Year Two revenue requirement includes one-half of the CPA costs.

- **Gas Residential Energy Assistance Tariff ("GREAT") Program Advisory Group.** The Settling Parties agree that NW Natural will maintain the advisory group for the GREAT Program ("Advisory Group"), which consists of NW Natural, TEP, Public Counsel, and Staff, as well as other agency representatives and interested stakeholders. The Advisory Group's goals are to prevent disconnections, provide assistance to more customers, lower the energy burden of GREAT Program participants, and collect data to inform assessments of the GREAT Program and ongoing policy discussions.

- **GREAT Program Annual Report.** The Settling Parties agree that NW Natural will file annual reports on the GREAT Program ("Annual Report") with the Commission, beginning in 2022.

- **Low-Income Evaluation Study.** The Settling Parties agree that NW Natural will, in consultation with the Advisory Group, produce a low-income evaluation study ("Low-Income Evaluation Study" or "Study") to assess the need for low-income assistance—including weatherization—among the Company's Washington customers.

Q. Do you recommend approval of the Agreement?

A. Yes. All Settling Parties recommend approval of the Agreement by the

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[4] Anderson, Exh. DHA-1T at 10:5-6. The property sale in Astoria will be credited to customers in Year Two. Kravitz, Exh. ZDK-1T at 21:1-2.

[5] *In re Nw. Nat. Gas Co. dba NW Nat. for an Acct. Order Authorizing Deferred Acct. Treatment of Conservation Potential Assessment Costs*, Docket UG-210085, Petition (Feb. 8, 2021).

Commission. The Agreement represents a compromise among the Settling Parties' differing points of view and all Settling Parties made concessions to reach a reasonable balance of interests in this case. As explained in this Joint Testimony, the Agreement received significant scrutiny and is supported by sound analysis and sufficient evidence. Approval of the Agreement is in the public interest.

II. BACKGROUND

Q. Please describe the Company's initial general rate case ("GRC") filing.

A. On December 18, 2020, NW Natural filed a general rate case requesting, among other things, approval for a multi-year rate plan. Under this plan, the Company requested authority to increase revenues from base rates in Year One by \$6.3 million, which would have resulted in an approximate 8.0 percent increase to overall revenues and an approximate 12.7 percent increase to gross margin.[6] Recognizing that the Company's proposed rate increases were filed against the backdrop of significant impacts of a global pandemic, when many customers are facing hardships in their lives, the Company also offered a number of proposals to mitigate rate impacts in Year One, resulting in an overall revenue increase of \$3.9 million, or 5.0 percent (12.7 percent increase to gross margin), in Year One.[7]

For Year Two, the Company requested authority to increase revenues by \$3.2 million—an approximately 3.7 percent increase (5.7 percent increase to gross margin).[8] This Year Two increase was proposed to recover the costs associated

[6] Anderson, Exh. DHA-1T at 9:13-18; Order 01 ¶ 2 (Jan. 7, 2021).
[7] Anderson, Exh. DHA-1T at 9:20-10:8; Kravitz, Exh. ZDK-1T at 3:4-20.
[8] Anderson, Exh. DHA-1T at 9:15-19.

with eight long-planned, discrete projects that will be completed prior to the start of Year Two.[9] The Company also proposed an additional rate mitigation measure for Year Two by crediting customers with the gain associated with the sale of the Astoria Resource Center, resulting in a customer credit of $42,692 on a Washington-allocated basis.[10]

The Company's proposed revenue requirement was based on an overall ROR of 6.913 percent,[11] which included (1) maintaining the existing return on equity at 9.4 percent, and (2) maintaining the current capital structure of 49 percent common equity, 1 percent short-term debt, and 50 percent long-term debt.[12]

Q. Around the same time as the general rate case filing, did NW Natural also submit separate but related filings?

A. Yes. Contemporaneously with the filing of its general rate case, NW Natural made two separate filings relating to a major information technology and services project known as the Horizon Project ("Horizon"). First, NW Natural filed a petition for an order authorizing deferred accounting treatment for certain one-time operations and maintenance costs associated with developing and implementing the first phase of Horizon. This filing was docketed as UG-200996. NW Natural also filed a petition for an accounting order authorizing the Company to use a ten-year amortization period for its capitalized cloud-based software license and implementation costs for Horizon. This filing was docketed as UG-200995. In

[9] Kravitz, Ex. ZDK-1T at 2:21-23.
[10] Kravitz, Exh. ZDK-1T at 21:1-6.
[11] Wilson, Exh. BJW-1T at 3:3.
[12] Anderson, Exh. DHA-1T at 18:18-19.

addition, on February 8, 2021, NW Natural filed a petition for an order authorizing deferred accounting for Conservation Potential Assessment ("CPA") costs. That petition was docketed as UG-210085.

Q. Did the Commission consolidate these proceedings with the rate case?

A. Yes. On May 11, 2021, the Commission granted a motion filed by all parties to this docket consolidating the rate case filing with UG-200995, UG-200996 and UG-210085.[13]

Q. Did the parties conduct discovery on the Company's rate case filing?

A. Yes. The Commission suspended the Company's filing and commenced discovery by Order 01, dated January 7, 2021. Pursuant to Order 01, the parties conducted extensive discovery on the Company's direct testimony, propounding a combined total of more than 350 individually numbered data requests. NW Natural responded to these data requests consistent with the Commission's procedural schedule in Order 03 of UG-200994. All parties had access to, and were able to review and analyze, the discovery requests and responses.

Q. Did the parties engage in settlement discussions?

A. Yes. The parties engaged in settlement discussions on April 13, April 19, April 21, April 29, and May 3, 2021. These extensive discussions led to the Agreement described herein.

Q. Does the Agreement resolve all issues in the rate case and in the Horizon-related and CPA filings discussed above?

A. Yes. The Settling Parties have reached a full settlement of the issues in the rate

[13] Order 04 (May 11, 2021), and *Notice of Errata to Order 04,* issued on May 17, 2021.

case proceeding, and the Agreement also resolves the issues raised in the Horizon-related and CPA filings discussed above.

Q. Do all Settling Parties support the Agreement?

A. Yes. All Settling Parties support the Agreement.

III. ELEMENTS OF THE AGREEMENT

A. Multi-Year Rate Plan

Q. What is a multi-year rate plan?

A. In general, a multi-year rate plan is a series of provisionally approved annual increases in utility rates or allowed revenues, which are intended to avoid the need for a utility to file general rate cases on an annual basis.

Q. Please describe your understanding of the Commission's standard and policy reasons for approving multi-year rate plans.

A. The Commission has indicated that multi-year rate plans can help (1) reduce regulatory lag;[14] (2) relieve stakeholders and the Commission of the regulatory burdens of frequent rate cases;[15] and (3) provide rate stability and predictability for utility customers.[16] The Commission has indicated that it retains discretion to evaluate requests on a case-by-case basis,[17] and expects that utilities will not file a

[14] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-120436 & 120437, Order 09 and Dockets UE-110876 & UG-110877, Order 14, ¶ 76 (Dec. 26, 2012) ("2012 Avista GRC").

[15] *In re Petition of Puget Sound Energy, Inc.*, Dockets UE-121697, UG-121705, UE-130137, & UG-130138 ("PSE 2012 GRC"), Order 07 ¶ 21 (June 25, 2013).

[16] *See* 2012 Avista GRC, Order 09/Order 14 ¶76 (Dec. 26, 2012) ("The Settlement provides rate stability for customers for two years and represents an innovative approach that will provide incentives to Avista to cut costs in order to earn a fair rate of return."); *see also* PSE 2012 GRC, Order 07 ¶ 150 ("The rate plan provides a degree of relative rate stability, or at least predictability, for customers for several years.").

[17] PSE 2012 GRC, Order 07 ¶ 23.

general rate case during the period of the rate plan.[18]

Q. Has the Commission recently provided additional policy guidance relevant to multi-year rate plans?

A. Yes, in January 2020, the Commission issued its "Policy Statement on Property that Becomes Used and Useful after Rate Effective Date" ("Policy Statement").[19] The Commission issued the Policy Statement in response to the 2019 amendment to the used-and-useful statute, which specifically allows the Commission to include in customer rates "property . . . acquired or constructed by or during the rate effective period."[20] The Policy Statement provides a framework for the Commission to consider requests for cost recovery for capital investments that are placed in service after the rate effective date. Relevant to multi-year rate plans, the Policy Statement specifically encourages utilities to propose such plans and other regulatory mechanisms that will allow them more timely recovery of investments. Additionally, the Policy Statement establishes the evidence the Commission will

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[18] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co*., Docket UE-152253, Order 12 ¶ 175
(Sept. 1, 2016).

[19] *See generally In re Comm'n Inquiry into the Valuation of Pub. Serv. Co. Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful after Rate Effective Date (Jan. 31, 2020) (hereinafter "WUTC 2020 Policy Statement).

[20] LAWS OF 2019, ch. 288, § 20(2) ("The commission has power upon complaint or upon its own motion to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state *by or during the rate effective period* and shall exercise such power whenever it deems such valuation or determination necessary or proper under any of the provisions of this title. The valuation may include consideration of any property of the public service company acquired or constructed *by or during the rate effective period*, including the reasonable costs of construction work in progress, to the extent that the commission finds that such an inclusion is in the public interest and will yield fair, just, reasonable, and sufficient rates.") (emphasis added).

require and the process it will follow to identify, review, and approve a utility's property that becomes used and useful for service in Washington after the rate effective date.

Q. Please describe the Commission's framework for considering and reviewing property that becomes used and useful after the rate effective date.

A. First, the utility must identify investments to be included in future rates and acquire provisional approval when it files its multi-year rate plan.[21] To identify these investments, the utility must include (1) the estimated cost of the investment, including offsetting factors and duplicative recovery considerations; (2) a description of the investment; and (3) other existing documentation that could assist the Commission in a future review of the investment.[22]

Second, the utility must include proof that the identified investments have been made and are now used and useful in its annual filings.[23] A utility must provide enough information to confirm that (1) the utility has placed the investment into service on or near the projected service date and (2) the estimated costs accurately reflect the actual cost of the investment.[24]

Any provisional pro forma adjustments the Commission approves during a general rate case are granted provisionally, subject to a final review and potential refund.[25] Once the Commission has completed its final review and approved the

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[21] WUTC 2020 Policy Statement at ¶ 34-38.
[22] WUTC 2020 Policy Statement at ¶ 34.
[23] WUTC 2020 Policy Statement at ¶ 39-42.
[24] WUTC 2020 Policy Statement at ¶ 41.
[25] WUTC 2020 Policy Statement at ¶ 38.

pro forma adjustment, the rates are no longer provisionally approved and subject to refund.[26]

Q. Please describe the Settling Parties' agreed-upon position regarding the multi-year rate plan.

A. The Settling Parties agree to support authorization of a two-year rate plan. Consistent with the proposal in the Company's initial filing, Year One would begin on November 1, 2021, and end on October 31, 2022.[27] Year Two would begin on November 1, 2022, and end on October 31, 2023.[28] Incremental Year Two rates would remain subject to refund, pursuant to the review and reconciliation process described below.

Q. Does the multi-year rate plan in the Agreement adhere to the framework outlined in the Commission's Policy Statement?

A. Yes. As described in greater detail below, the multi-year rate plan is consistent with the Commission's direction in the Policy Statement. NW Natural has identified the investments for the multi-year plan, and has provided all required information, including: (1) the estimated cost of the investment, including offsetting factors and duplicative recovery considerations; (2) a description of the investment; and (3) other existing documentation that could assist the Commission in a future review of the investment.[29] Additionally, consistent with the Policy Statement, the review and reconciliation process established by the Settling Parties

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[26] WUTC 2020 Policy Statement at ¶ 46.
[27] Anderson, Exh. DHA-1T at 9:13-15.
[28] Anderson, Exh. DHA-1T at 9:15-16.
[29] WUTC 2020 Policy Statement at ¶ 34.

will confirm that (1) the Company has placed the investment into service on or near the projected service date and (2) the estimated costs accurately reflect the actual cost of the investment.[30]

1. Year One Rate Increase

Q. What was the Company's initial request with respect to Year One base rates?

A. The Company initially requested authority to increase revenues in Year One from base rates by $6.3 million, which would have resulted in an approximate 8.0 percent increase to base rates.[31]

Q. What is the Settling Parties' agreement with respect to Year One base rates?

A. The Settling Parties agree to support a revenue requirement increase to Year One base rates of $5.0 million. This amount does not include the rate impact mitigation provisions, discussed in Section C, below.

Q. Does the Year One increase include the pro forma plant proposed by the Company?

A. The Settling Parties agree to recommend inclusion of the pro forma plant proposed by NW Natural in rates. However, the Settling Parties agree to recommend that the portion of the revenue requirement increase for Year One attributable to Year One pro forma plant included in rates will remain unspecified.

2. Year Two Rate Increase

Q. What was the Company's initial request with respect to Year Two base rates?

A. The Company initially requested authority to increase revenues in Year Two from

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[30] WUTC 2020 Policy Statement at ¶ 41.
[31] Anderson, Exh. DHA-1T at 9:13-18; Order 01 ¶ 2.

base rates by $3.2 million, which would have resulted in an approximate 3.7 percent increase to base rates.[32]

Q. What is the Settling Parties' agreement with respect to a revenue requirement increase to Year Two base rates?

A. The Settling Parties agree to support a revenue requirement increase to Year Two base rates of $3.0 million, subject to the review and reconciliation process described below. This amount includes offsetting savings, but does not include the rate impact mitigation provisions, which will further reduce the revenue requirement, discussed in Section C, below. Following the Year Two review and reconciliation process, final base rates will increase by up to—but no more than—$3.0 million, reflecting final prudency determinations.

Q. What is the basis for the $3.0 million increase in base rates for Year Two?

A. The $3.0 million incorporates four categories of costs: (a) a series of discrete capital projects (netted against offsetting savings), (b) incremental ongoing O&M costs associated with the Horizon 1 Project (netted against offsetting savings), (c) deferred one-time implementation costs associated with the Horizon 1 Project, and (d) one-half of prospective CPA costs, or $74 thousand of Washington-specific costs. Each category of cost, as well as offsets, is discussed in more detail below.

Q. What is the collective revenue requirement impact of all four categories of costs, combined with offsetting savings, based on the Company's initial filing?

A. The collective revenue requirement impact of all four categories of costs is reflected in Attachment 1 to the Agreement and is expected to total approximately

[32] Anderson, Exh. DHA-1T at 9:15-19; Order 01 ¶ 3.

$3.3 million. However, under the agreed-upon cap, no more than $3.0 million in costs will be included in final base rates.

Q. What happens to any costs excluded from recovery in Year Two by operation of the agreed-upon cap?

A. The Settling Parties agree that NW Natural reserves the right to later seek cost recovery for prudently incurred costs associated with the four categories of costs in Attachment 1 over the $3 million cap in a future general rate case.

Q. Have the non-Company Settling Parties reviewed and analyzed the reasonableness of the Year Two cost components?

A. Yes. The non-Company Settling Parties carefully reviewed the evidence presented to support the reasonableness of the four cost categories included in Year Two rates, and specifically the discrete capital projects. These amounts remain subject to the review and reconciliation process detailed below.

a. <u>Discrete Capital Projects</u>

Q. What are the discrete capital projects that Settling Parties support including in Year Two rates?

A. The Settling Parties support including the following eight discrete capital projects in Year Two rates (with each project's as-filed revenue requirement impact included in parentheses):

1. The Horizon 1 Project ($1.4 million)[33]
2. The Vancouver Resource Center Project-Phase 2 ($506 thousand)[34]
3. White Salmon Reinforcement Project ($275 thousand)[35]

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[33] NW Natural Direct Testimony of Jim R. Downing, Exh. JRD-1T at 44:10-12 (Dec. 18, 2020).
[34] Kravitz, Exh. ZDK-1T at 18:13-14.
[35] NW Natural Direct Testimony of Joe S. Karney, Exh. JSK-1T at 9:3-4 (Dec. 18, 2020).

4. SE 1st Street Grading Project (Phase 2) ($242 thousand)[36]
5. Battle Ground Gate Station Rebuild Project ($140 thousand)[37]
6. Ridgefield Gate Station Rebuild Project ($170 thousand)[38]
7. Mist Well Rework Program 2021 ($36 thousand)[39]
8. Mist Corrosion Abatement Project (Phase 4) ($36 thousand)[40]

Each of the above projects is expected to be placed in service prior to November 1, 2022—the beginning of the rate effective date for Year Two.

Q. What happens if one of these projects does not enter service by November 1, 2022?

A. If one of the planned capital projects does not enter service by November 1, 2022, then that project's revenue requirement will be excluded from calculating the total cost of the Year Two capital projects. The implications of changes in project costs or timing are discussed below as part of the Year Two review and reconciliation process.

b. <u>Horizon 1 Ongoing Net O&M</u>

Q. What is the ongoing O&M expense associated with Horizon 1?

A. After Horizon 1 is placed in service in October 2022, it will entail estimated ongoing system O&M costs of $6.2 million associated with annual licensing fees and related services and maintenance.[41] However, this amount will be offset with ongoing O&M cost savings associated with replaced software ($0.7 million) and

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[36] Karney, Exh. JSK-1T at 6:9-10.
[37] Karney, Exh. JSK-1T at 11:16-17.
[38] Karney, Exh. JSK-1T at 11:16-18.
[39] Karney, Exh. JSK-1T at 24:16-17.
[40] Karney, Exh. JSK-1T at 26:14-15.
[41] Downing, Exh. JRD-1T at 45:11-12.

substantial new efficiencies ($1.5 million).[42] Together, the net incremental ongoing O&M costs associated with Horizon 1 will be $3.989 million on a system-wide basis, or $460 thousand on a Washington-allocated basis.[43]

Q. How does the Agreement account for ongoing net O&M costs for Horizon 1?

A. The Settling Parties agree to incorporate these ongoing O&M costs in the revenue requirement that is subject to the $3.0 million cap for the Year Two base rate increase, coinciding with Horizon 1 being placed in service.

c. <u>Horizon 1 Deferred One-Time Implementation Costs</u>

Q. What are the deferred one-time implementation costs for Horizon 1?

A. On December 18, 2020, NW Natural filed a Petition for an Accounting Order Authorizing Deferred Accounting Treatment ("Horizon Deferral Petition") associated with the one-time start-up costs for Horizon 1.[44] In the Horizon Deferral Petition, NW Natural sought authority to defer the start-up costs associated with developing and implementing the first phase of the Horizon initiative, pursuant to WAC 480-07-370(1)(b).[45] These start-up costs are expected to total approximately $83 thousand on a Washington-allocated basis.[46]

Separately, and also on December 18, 2020, NW Natural sought approval to amortize the deferred Horizon 1 start-up costs over a 10-year period ("Horizon

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[42] Downing, Exh. JRD-1T at 45:12-15.

[43] Downing, Exh. JRD-1T at 45:15-17.

[44] *In re Nw. Nat. Gas Co. dba NW Nat. for an Acct. Order Authorizing Deferred Acct. Treatment of Certain Start-up Costs Assoc.'d with a Major Info. Tech. & Serv.'s Project*, Docket UG-200996, Petition (Dec. 18, 2020).

[45] Docket UG-200996, Petition ¶¶ 1-5.

[46] Agreement, Attachment 1.

Amortization Petition"), to reflect the depreciable life of the Horizon 1 project.[47]

Q. Has the Horizon Deferral Petition or the Horizon Amortization Petition been approved?

A. Not yet. As part of this Agreement, the Settling Parties agree to support granting both Horizon 1 petitions within this general rate case proceeding, which already addresses cost recovery for the Company's Horizon 1 investment and ongoing O&M costs. As discussed above, on May 11, 2021, the Commission granted a motion filed by all parties to this docket consolidating the rate case filing with the Horizon 1 petition dockets, UG-200995 and UG-200996.[48]

Q. What is the Settling Parties' specific proposal concerning the Horizon petitions?

A. The Settling Parties recommend that the Commission authorize deferred accounting treatment for the Horizon 1 start-up costs, and authorize amortization of the accrued amounts over a 10-year period.

Q. Why is deferral and amortization of the Horizon 1 start-up costs reasonable in this case?

A. Deferral and amortization of the Horizon 1 start-up costs is reasonable because implementing Horizon 1 requires a significant, one-time expense for start-up costs for Horizon 1 that cannot be capitalized, and would not otherwise be appropriate to

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[47] Kravitz, Exh. ZDK-1T at 25:15-18, 26:1-2; *In re Nw. Nat. Gas Co. dba NW Nat. Petition for Acct. Order for Approval of Depreciation and Amortization of Rates for Inv. in Certain Software*, Docket UG-200995, Petition ¶ 16 (Dec. 18, 2020).

[48] Order 04 (May 11, 2021), and *Notice of Errata to Order 04,* issued on May 17, 2021. Additionally, docket UG-210085 in which the Company requested an order authorizing deferred accounting for Conservation Potential Assessment ("CPA") costs was consolidated in Order 04.

include in base rates as part of a normalized test year. The start-up costs detailed in the Horizon Deferral Petition include O&M costs related to (a) pre-requisite projects to ensure that NW Natural has the necessary technical processes and policies in place to support the new Enterprise Resource Planning ("ERP") upgrade; (b) data conversion work to transition to the new ERP platform; (c) backfilling employees; and (d) the development and implementation of a robust change management process. NW Natural has provided the requisite information to the parties to better understand the startup costs, and how those start-up costs are connected to the successful development of the project. Moreover, by including the amortization of the deferral in Year Two, this aligns the amortization of the deferral with the recovery of the overall Horizon 1 project.

d. Prospective CPA Costs

Q. Please explain the basis for NW Natural's CPA costs.

A. NW Natural's CPA costs reflect the costs of complying with recent Washington State legislation. In 2019, the legislature approved and adopted HB 1257 as part of an effort to reduce greenhouse gas emissions.[49] This legislation requires gas companies to identify and acquire all available and cost-effective conservation measures. In order to identify available and cost-effective conservation measures, each gas company must conduct a CPA through an independent third party and use this CPA to establish conservation targets beginning in 2022.

Q. Please describe NW Natural's CPA costs.

A. NW Natural has two categories of CPA costs: (1) costs incurred during 2021 for

[49] Energy Efficiency, HB 1257, 66th Legislature, Section 11 (Approved May 7, 2019).

the first CPA, which are subject to NW Natural's petition for deferred accounting treatment (described in Section III.D below); and (2) costs that will be incurred on a biennial basis going forward (referred to here as "prospective CPA costs"). CPA costs are incurred on a biennial basis, and each CPA is expected to entail approximately $148 thousand.

Q. Please describe the prospective CPA costs.

A. The Settling Parties agree that one-half of the prospective CPA costs or $74 thousand, should be included in base rates beginning in Year Two. Because utilities are required to perform a CPA every two years, the Company would over-collect if it were to include the entire CPA cost amount in base rates for annual recovery. Accordingly, the Settling Parties have included one-half of the prospective CPA costs in base rates, which aligns cost recovery on an annual basis with the CPA costs that will be incurred on a biennial basis. The Settling Parties recommended beginning the amortization in Year Two beginning November 1, 2022, because the recovery of the CPA over the next two years will align with the Company's next biennial reporting period.

e. <u>Offsetting Factors</u>

Q. What offsetting factors did Settling Parties consider and account for when arriving at the $3 million cap on the revenue requirement increase for Year Two?

A. The Settling Parties considered and accounted for a variety of offsetting factors, namely: (a) a depreciation reserve adjustment for all new projects, such that any depreciation incurred between a project's in-service date and the November 1, 2022 rate effective date is accounted for by taking the actual book value at the time rates are effective; (b) O&M savings tied to new projects; (c) revenue growth; and (d) rate-year plant retirements associated with Year Two projects—in this case, the retirement of the current SAP[50] enterprise resource planning platform.

The Year Two Review and Reconciliation Process, directly below, describes the Settling Parties agreement regarding limited adjustments to the offsetting factors associated with the true-up for actual book values based on final costs and newly discovered offsetting factors.

3. Year Two Review and Reconciliation Process

Q. Please summarize the Settling Parties' agreement concerning the Year Two review and reconciliation process.

A. At a general level, the Year Two review and reconciliation process is an opportunity for non-Company parties, including the Settling Parties and Public Counsel (the "non-Company Parties") to verify the prudence, in-service dates, and final costs for all Year Two capital projects described above, as well as those projects' related costs. While the Settling Parties recognize and agree that NW Natural has provided significant information concerning all aspects of the Year Two costs in this case, both through the Company's initial filing and through the discovery process, the Settling Parties understand that NW Natural retains the burden of demonstrating the prudence of the Year Two capital projects and related expenses through the final review process.

[50] SAP (Systeme, Anwendungen und Produkte in der Datenverarbeitung) is a German software company and international leader in enterprise software programs.

Q. Please describe the agreed-upon Year Two review and reconciliation process.

A. The Settling Parties agree that the Year Two review and reconciliation process will consist of a comprehensive update from NW Natural ("Year Two Pro Forma Filing") and a review process by the non-Company Parties, followed by a final review by the Commission.

Q. Please describe the Settling Parties' agreement with respect to the Year Two Pro Forma Filing.

A. The Settling Parties have agreed that NW Natural will submit a Year Two Pro Forma Filing following the Year Two rate effective date (November 1, 2022), and no later than February 28, 2023.[51] This Year Two Pro Forma Filing will include:

- the justification for the project/expense, including supporting information;
- actual in-service dates for capital projects;
- actual final costs, as well as explanations for significant cost variances;
- any changes to capital projects, such as deviations from the project scope and/or from descriptions provided in the Company's initial general rate case filing;
- evidence that any cost overruns (and the decision to continue investing in a capital project) were prudent;
- updated information on offsetting factors, as agreed upon by the Settling Parties;[52] and
- any other relevant information.

The Year Two Pro Forma Filing will include any new evidence relevant to the prudence of the Company's expenditures. Where relevant, the Year Two Pro Forma Filing may include previously-submitted data responses and references to previously-filed evidence. The Settling Parties agree that NW Natural may also submit the above evidence and information regarding individual projects as the

[51] NW Natural will also serve parties to this docket with the Year Two Pro Forma Filing.

[52] As discussed above, the Settling Parties agree not to contest the offset amounts identified for offsetting revenue growth and agree that direct retirements of plant are reasonable.

projects are completed, in order to facilitate the non-Company Parties' review process.

Q. Please describe the non-Company Parties' review process.

A. Once NW Natural submits the Year Two Pro Forma Filing, non-Company Parties will have the opportunity to review the evidence and have the ability to conduct discovery, similar to that allowed in adjudicative proceedings. The non-Company Parties reserve the right to evaluate the prudence of the Company's Year Two capital projects and to account for newly discovered or materialized offsetting factors. The Settling Parties agree that consideration of new offsetting factors in this context will be limited to offsets that might occur directly as a result of the Company's investments in these projects and will not include indirect offsets. For the purposes of this Agreement, indirect offsets include potential cost savings or revenue growth unrelated to the discrete projects included in Year Two.

Following this review process, non-Company Parties may submit in this docket a response notifying the Commission whether the final reported costs are accepted or contested by that party. These written responses will be filed no later than four months after NW Natural submits the Year Two Pro Forma Filing.

Q. Can NW Natural submit evidence regarding individual projects included in Year Two in advance of the February 28, 2023 deadline for the Year Two Pro Forma Filing?

A. Yes. As mentioned above, NW Natural may submit to this docket the evidence mentioned above regarding individual projects once they are complete in order to expedite the review process.

Q. What is the deadline for non-Company Parties to file their response?

A. The non-Company Parties may file responses after all Year Two projects have been reported. Non-Company Parties will complete their review and file any response no later than four months after NW Natural submits the final Year Two Pro Forma Filing, or by June 28, 2023.

Q. Please describe the proposed process after non-Company Parties file their responses.

A. After the non-Company Parties submit their responses to the Commission, the Settling Parties agree that NW Natural will file a petition to amend the final order in UG-200994 in accordance with WAC 480-07-875. The petition to amend the final order will indicate whether the parties agree to the proposed rate change or if a dispute exists that would require further process under WAC 480-07-875. If there is no dispute, the petition will specify any changes (if necessary, based on the updated information) to Year Two rates, or explain that no changes to Year Two rates are necessary.

Q. When do the Year Two rates go into effect?

A. Year Two rates will go into effect on November 1, 2022, but the Year Two rate amounts are subject to refund until the review of these pro forma projects is complete and accepted by the Commission through an amended order.

Q. When will the Year Two rates become final?

A. Once the Commission completes and reaches prudency determinations regarding the Year Two discrete capital projects, the Year Two rates will become final (incorporating any necessary refund, if the $3 million cap is not met).

Q. Please elaborate on the operation of the Settling Parties' proposed $3 million cap.

A. The Settling Parties agree that the pro forma adjustment to Year Two rates shall not exceed the agreed-upon $3 million amount. The Settling Parties agree to apply this $3 million cap on a portfolio basis—that is, upon review of the pro forma adjustment to Year Two rates, increases or decreases to various Year Two cost components, listed above, will be netted against each other. If, for example, one project's costs increase and another project's costs decrease, these amounts will be added together when determining whether the $3 million cap is reached. Through this portfolio approach, prudently incurred costs above the currently estimated amounts will be accepted, so long as the total revenue requirement increase for Year Two does not exceed the $3 million cap.

Q. What happens if one of the discrete capital projects is delayed past the Year Two rate effective date?

A. If a discrete capital project is delayed past the Year Two rate effective date, then the Settling Parties agree that neither the project's costs nor associated expenses will be included in the calculation of total costs eligible for inclusion in Year Two rates, and which are subject to the $3 million cap. However, the $3 million cap will remain unchanged.

B. Cost of Capital

Q. Please summarize NW Natural's initial cost of capital proposal in this case.

A. NW Natural initially proposed to reduce its overall ROR from the currently authorized 7.161 percent[53] to 6.913 percent,[54] representing a reduction in the long-term cost of debt and maintaining the current ROE of 9.4 percent.

Q. Please describe the Settling Parties' agreed-upon position regarding the cost of capital.

A. The Settling Parties agreed to reduce the Company's overall ROR to 6.814 percent. The Settling Parties agreed not to specify the underlying ROR inputs of the ROE, cost of debt, or capital structure.

C. <u>Rate Mitigation</u>

Q. Please describe the Company's proposed rate mitigation measures in this case.

A. In addition to delaying certain capital projects,[55] NW Natural proposed two rate mitigation measures for Year One of the multi-year rate plan. First, NW Natural proposed to suspend the Company's amortization of its energy efficiency deferral, reducing the proposed revenue requirement by an estimated $1.4 million.[56] This suspension will not impact NW Natural's energy efficiency programs; rather, this mitigation tool pauses the amortization of a regulatory asset for historical amounts related to the Company's energy efficiency programs. The Company will continue to recover amounts associated with the costs of its current program. Second, NW Natural proposed to pass on to customers the gain received from selling the

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[53] *Wash. Utils. & Transp. Comm'n v. Nw. Nat. Gas. Co.,* Docket UG-181053, Order 06 ¶ 51 (Oct. 21, 2019).

[54] Wilson, Exh. BJW-1T at 3:3.

[55] In early 2020, NW Natural made the decision to split the Company's construction efforts at the Vancouver Resources Center into two phases, and delay Phase 2 (known as the Vancouver Yard Retrofit), thus mitigating customer impacts in Year One. Kravitz, ZDK-1T at 26:7-13.

[56] Kravitz, Exh. ZDK-1T at 17:13-14. The $1.4 million estimate is subject to change based on changes in the FERC interest rate that accrues on the account.

Company's Block 24 property, which is also called the "Truck Lot,"[57] in Portland, Oregon, reducing the proposed revenue requirement by $840 thousand. For Year Two, NW Natural proposed to credit customers with the net gain from selling the Astoria Resource Center property, reducing the proposed revenue requirement by $43 thousand.[58]

Q. What agreement did the Settling Parties reach on rate mitigation?

A. The Settling Parties agree to include an estimated $2.3 million in rate mitigation, as presented in NW Natural's initial filing.

Q. Did NW Natural present a separate rate spread proposal for the rate mitigation adjustments?

A. Yes. For Year One, NW Natural proposed to spread the historical energy efficiency deferral of approximately $1.4 million to residential and commercial sales rate schedules on an equal percent of margin basis, and to spread the Truck Lot property net gain across all rate schedules on an equal percent of margin basis.[59] For Year Two, NW Natural proposed to spread the Astoria Resource Center property net gain across all rate schedules on an equal percent of margin basis.[60]

Q. What is the Settling Parties' agreement on the rate spread for rate mitigation measures?

A. The Company's Year One Rate Mitigation Proposals (suspension of its EE tariff

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[57] *See In re the Application of Nw. Nat. Gas Co., for an Order Authorizing the Sale of the Block 24 Property Located in Portland, Or.*, Docket UG-190457, Order 01 (Sep. 12, 2019).
[58] Kravitz, Exh. ZDK-1T at 21:1-6.
[59] NW Natural Direct Testimony of Robert J. Wyman, Exh. RJW-1T at 42:17-20 (Dec. 18, 2020).
[60] Wyman, Exh. RJW-1T at 43:3-4.

and credit of Truck Lot proceeds) will be spread over two years of the rate plan, rather than one year as proposed in the Company's filing. The Company's Year Two Rate Mitigation Proposal (credit of Astoria property sale proceeds) will be spread as proposed in the Company's filing. The Settling Parties agree that the rate mitigation measures, taken together, will be spread to customers on an equal percent of margin basis. Attachment 2 to the Agreement shows the rate credit by rate schedule.

Q. Please describe how the Settling Parties propose to apply the rate mitigation measures.

A. The Settling Parties propose that the rate mitigation measures will be applied after the Year One and Year Two revenue requirement increases, described above, are applied to the rate schedules.

D. <u>CPA Deferral</u>

Q. Please describe NW Natural's CPA deferral.

A. As noted above, NW Natural is incurring costs to produce a CPA, which will identify all available and cost-effective energy efficiency measures. On February 8, 2021, the Company filed a petition to track and defer CPA costs associated with developing the first 2022 CPA ("CPA Deferral Petition").[61] The Company currently estimates that these CPA costs will entail approximately $148 thousand.

Q. What is the Settling Parties' agreement concerning the CPA Deferral Petition?

A. The Settling Parties agree that the CPA Deferral Petition should be approved by the Commission. The Settling Parties further agree that the actual costs included in the

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[61] Docket UG-210085, Petition.

deferral account should be amortized over a one-year period through a separate, temporary rate schedule beginning on the rate effective date of Year One. This amount will be spread to all customers on an equal percent of margin basis. Additionally, as described in Section III.A.2.d above, one-half of the biennial CPA costs, or $74 thousand, will be included in base rates beginning in Year Two.

E. Rate Spread

Q. Did NW Natural provide a cost-of-service study in its filing?

A. Yes. NW Natural provided a cost-of-service study, showing the Company's proposed cost causation associated with capital investments and operation expenses across customer classes and rate schedules.[62] This cost-of-service study was then used to inform the Company's rate spread proposal, while also accounting for fairness and the need to minimize customer rate impacts.[63]

Q. Please describe the Company's initial rate spread proposal.

A. NW Natural initially proposed to spread the rate plan's incremental revenue requirement—$6.3 million in Year One and $3.2 million in Year Two—on an equal percent of margin basis for each customer rate schedule.[64] The Company proposed maintaining the existing relative rate spread until a load study could be completed per WAC 480-85-050(1).[65]

Q. What is your understanding of the Commission's standard for determining

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[62] Wyman, Exh. RJW-1T at 3:12-14, 38:3-10.
[63] Wyman, Exh. RJW-1T at 38:15-39-18.
[64] Wyman, Exh. RJW-1T at 41:4-11.
[65] Wyman, Exh. RJW-1T at 41:17-19.

rate spread and rate design proposals?

A. The Commission considers several factors when determining rate spread and rate design, including "fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability."[66]

Q. What is the agreement on rate spread?

A. The Settling Parties agree to the rate spread allocation, set forth in Attachment 3 to the Agreement, as a fair and reasonable basis for allocating the recommended Year One and Year Two revenue requirement increases.

Q. What is the incremental Year One and Two revenue requirement allocation by rate schedule?

A. Attachment 4 to this Agreement shows the Year One and Year Two incremental revenue requirement allocation by rate schedule, inclusive of the Rate Mitigation Proposals and CPA Deferral.

F. Low-Income Provisions

Q. Please enumerate the items agreed to by the Settling Parties that address the specific needs and concerns of low-income customers.

A. The Settling Parties agreed to three items that specifically address the needs and concerns of NW Natural's low-income customers: (1) strengthening the stakeholder collaboration through the existing GREAT Program Advisory Group; (2) facilitating information sharing by instituting GREAT Program Annual Reports; and (3) producing an independent Low-Income Evaluation Study on a set timeline.

[66] WAC 480-85-010(2).

Q. Why are these provisions consistent with the public interest?

A. These three terms will enable stakeholders to closely monitor the program performance and identify areas for the future improvements. Through collaboration, the stakeholders would like to explore ways to make the program more accessible to the eligible population and meaningfully reduce the low-income customers' energy burden.

Q. Does the Agreement change the amount of funding for low-income bill assistance?

A. No. The Agreement does not provide for an increase in the Company's low-income bill assistance program, the GREAT Program. The GREAT Program spending has been consistently below the current annual cap of $500,000 in recent years, and the Settling Parties have not proposed any changes to the annual cap.

1. GREAT Program Advisory Group

Q. Please summarize the Settling Parties' agreement concerning the GREAT Program Advisory Group.

A. The Settling Parties agree that NW Natural will maintain the Advisory Group for the GREAT Program, consistent with the Settlement Agreement in the Company's 2018 GRC.[67] The membership, goals, minimum frequency of the Advisory Group meetings, and program review timing remain the same as provided in the 2018 GRC.

Q. Please describe the membership of the Advisory Group.

A. The Advisory Group membership consists of NW Natural, TEP, Public Counsel,

[67] Docket UG-181053, Order 06, Attachment A, Joint Settlement Agreement ¶ 24.

and Staff, as well as other agency representatives and interested stakeholders.

Q. What are the goals of the Advisory Group?

A. The Advisory Group's goals are to prevent disconnections, provide assistance to more customers, lower the energy burden of GREAT Program participants, and collect data to inform assessments of the GREAT Program and ongoing policy discussions.

Q. How often will the Advisory Group convene?

A. The Advisory Group will convene at least twice each year.

Q. How frequently will the Advisory Group review the GREAT Program?

A. The Advisory Group will annually review the sufficiency of GREAT Program funding levels and will suggest any necessary adjustments to ensure that the GREAT Program is adequately funded. In addition, the Advisory Group will periodically review the GREAT Program structure and mechanisms to ensure that the Advisory Group's goals are being achieved, including the potential to expand access to bill assistance.

2. GREAT Program Annual Report

Q. Please summarize the Settling Parties' agreement concerning the GREAT Program Annual Report.

A. The Settling Parties agree that NW Natural will file a GREAT Program Annual Report with the Commission on February 1 of each year, beginning with 2022. The Company will develop the Annual Report in consultation with the Advisory Group. The Annual Report will document the bill assistance activities in the previous program year, and will include, at a minimum, the following information:

- the quantity of benefits distributed to NW Natural's Washington customers, both as a total and on an average-per-customer basis, in the most recent five years;
- the quantity of Low Income Home Energy Assistance Program ("LIHEAP") benefits received by NW Natural's Washington customers, both as a total and on an average-per-customer basis, in the most recent five program years;
- the number of NW Natural's Washington customers who received GREAT Program benefits in the most recent five program years;
- the number of NW Natural's Washington customers who received LIHEAP benefits in the most recent five program years;
- the number of NW Natural's Washington customers who received both GREAT Program and LIHEAP benefits in the most recent five program years;
- the average natural gas usage and average monthly bill for the Company's low-income customers and for the Company's non-low-income customers in the last calendar year;
- NW Natural's communication and outreach activities in the preceding 12 months, and the plan for such activities in the subsequent 12 months;
- any changes to the GREAT Program in the previous 12 months and a forward-looking assessment for the subsequent 12 months.

In addition to the above items, the Company will consult with the Advisory Group to determine any supplemental information that may be appropriate to include.

Q. To whom will the Annual Report be provided?

A. The Annual Report will be filed with the Commission. However, NW Natural will first provide a draft of the Annual Report to the Low-Income Advisory Group for comment at least 60 days prior to filing the first Annual Report in 2022.

Q. Is the Annual Report requirement consistent with the Commission's requirements for other investor-owned utilities?

A. Yes. The requirement to file the Annual Report is consistent with the Commission's requirements for all other investor-owned utilities in Washington.

3. Low-Income Evaluation Study

Q. Please summarize the Settling Parties' agreement concerning the Low-Income

Evaluation Study.

A. The Settling Parties agree that NW Natural will, in consultation with the Advisory Group, produce an independent Study to assess the need for low-income assistance—including weatherization—among the Company's Washington customers. NW Natural will hire a third party, selected in consultation with the Advisory Group, to independently perform the Study and prepare a written report. Once the Study has been completed, the Company will file the written study with the Commission. The written study will be filed with the Commission no later than 18 months after a final order is issued adopting the Settling Parties' Agreement. NW Natural will not seek to recover the costs associated with producing the Study from customers.

Q. Did the Company also make a similar commitment in the 2018 GRC?

A. Yes. In the 2018 GRC, the Company committed to work with the Advisory Group to produce a low-income evaluation study to assess the need for low-income assistance among its Washington customers, including low-income weatherization, and to identify ways to improve the GREAT Program to better align with the four goals. However, due to the implementation of new low-income programs as a result of the COVID-19 pandemic and various considerations, the Company and GREAT Advisory Group have not started the project. The Agreement reiterates the Company's prior commitment, but also specifies that the Company will hire an independent third-party to perform the study and to file the completed study with the Commission within 18 months after the Commission's final order adopting the Agreement, which will ensure that the Study is completed on a set timeline.

IV. THE AGREEMENT SATISFIES THE SETTLING PARTIES' INTERESTS AND IS CONSISTENT WITH THE PUBLIC INTEREST

Q. What are the legal standards that must be satisfied with respect to any settlement?

A. The Commission's charge is to regulate in the public interest.

Q. Why is the Agreement in the public interest?

A. The Agreement is in the public interest and should be approved for the following reasons:

- **First,** the Agreement strikes a reasonable balance between the interests of the Company and its customers, including its low-income customers. As a result, it reflects a reasonable compromise among differing interests and perspectives.
- **Second,** the Company's initial filing has been closely examined and subject to considerable scrutiny through discovery. In addition, non-Company Parties will continue to examine changes in the nature, scope, and cost of Year Two capital projects through the Year Two review and reconciliation process.
- **Third,** all Settling Parties have had ample opportunity to participate meaningfully in the settlement process. All Settling Parties participated fully in the lengthy and detailed settlement discussions and negotiations, which resulted in the achievement of the Agreement now presented for the Commission's review and approval.
- **Fourth,** any settlement, including the Agreement, reflects a compromise among the positions of disparate parties with differing interests and priorities. These Settling Parties' sincere engagement, robust deliberations, and concentrated analysis has yielded a comprehensive resolution of the issues in this case.

In sum, all Settling Parties strongly agree that the Agreement presented for the Commission's review is in the public interest and will lead to rates that are fair, just, reasonable, and sufficient.

V. INDIVIDUAL SETTLING PARTY POSITIONS

A. Statement of NW Natural (Zachary D. Kravitz and Kyle T. Walker)

Q. What are the primary factors driving the Company's need for a rate increase?

A. The Company's need for a rate increase in Year One of the multi-year rate plan is driven primarily by capital projects that have already been placed in service and increased pressures on O&M expenditures. The Year Two rate increase is driven by identifiable, long-planned, discrete capital projects that, without rate recovery in Year Two, would put immediate pressure on rates requiring a rate case.

Q. Before filing the case, did the Company also consider the potential impacts of the case on customers in light of the COVID-19 pandemic?

A. Yes. The Company carefully considered the economic and health effects of COVID-19, and resolved to mitigate the impacts of the case on its customers. To that end, as part of its initial filing, the Company proposed several mitigation measures to reduce the impact of the rate case, including suspending the amortization of a deferral balance in the year rates go into effect, crediting customers the benefit of a property sale, and maintaining its ROE at 9.4 percent rather than seeking an increase as recommended by the Company's ROE witness, and proposing a two-year rate plan to help provide additional rate stability and predictability to customers.

Q. Please explain why the Agreement satisfies the interests and concerns of NW Natural.

A. The Agreement is a compromise of the Settling Parties that provides reasonable values for the Company's revenue requirement, cost of capital, and rate design/rate spread, and it allows NW Natural to focus on operations rather than continuing to expend time and resources on litigation. Additionally, the Agreement provides the Company recovery of the costs for long-planned improvements in our system and facilities. At its core, this rate case sought to recover the costs of investments made on behalf of our customers in our system to continue to provide safe and reliable energy to their homes and businesses. Distribution system improvements located throughout our service territory and the replacement of our large dehydrator the Mist Storage Facility will allow NW Natural to provide service on the coldest days when our customers need our service the most. Additionally, our move to a new operational center at 250 Taylor Street in Portland provided the least-cost, least-risk option for the Company that prioritized the safety of our employees and our customers by finding a seismically resilient building that will remain operational in the event of large-scale earthquake. Likewise, our data center migration project migrated our data centers at our current office and our Sherwood facility to three separate locations, including one east of the Cascades, to ensure that our Company would have the IT&S resources available if there is a large seismic event.

Additionally, the Agreement provides for recovery in Year Two of the Company's investment in the first phase of the "Horizon" project, which is a major IT&S initiative to upgrade our technology architecture and involves upgrades to NW Natural's existing ERP software, which functions as the Company's backbone software—managing and integrating all of NW Natural's essential business functions. IT&S investments have shorter depreciable lives compared to other historical investments in the distribution system. Minimizing regulatory lag on these projects is critical to ensuring the Company maintains it financial health and is provided an opportunity to earn a fair return on these investments. Without the ability to capture this project, and other important projects, in rates to recover these investments in the second year of a multi-year rate plan, the Company would experience significant regulatory lag on its recovery of these investments—or need to file another rate case immediately after completing this one. By allowing the Company to include these investments as part of a two-year plan, the Commission will alleviate itself, Commission Staff, the Company, and all other interested parties of the burden imposed by the cycle of filing continuous rate cases.

Q. Please explain why NW Natural believes the Agreement is in the public interest.

A. The Agreement is in the public interest because it strikes a reasonable balance between the interests of NW Natural and its customers on the issues raised in NW Natural's initial filing, including revenue requirement, cost of capital, and rate design/rate spread. The public interest is further served because the Agreement provides the Company with cost recovery for its investments in utility infrastructure, facilities, and IT&S software that are critical to providing safe and reliable services to its customers. Finally, the two-year rate plan will help reduce regulatory lag, provide rate stability and predictability for utility customers, and will relieve stakeholders and the Commission of the regulatory burdens of frequent rate cases.

Q. Does the Agreement result in a fair and reasonable outcome?

A. Yes. Overall, the Agreement reflects a compromise among the Settling Parties, each with differing interests, and achieves a fair and reasonable outcome. NW Natural believes that the Agreement is consistent with the public interest.

Q. Does this complete your testimony on behalf of NW Natural?

A. Yes.

B. Statement of Staff (Jason L. Ball)

Q. Does Staff agree with Sections I. through IV. of the joint testimony?

A. Yes. Staff agrees with the arguments put forward in those sections in favor of the Settlement. This separate statement is intended to supplement those arguments and explain Staff's rationale for supporting specific aspects of the Settlement.

Q. Is the overall settlement in the public interest?

A. Yes, it is. First, the overall revenue requirement and rates for Year One of the rate plan are reasonable. Staff reviewed NW Natural's initial filing, and although there were some adjustments, Staff agreed substantially with the overall revenue requirement need. Accordingly, the difference between the revenue requirement increase proposed in NW Natural's initial filing and the increase proposed in the Settlement is not as dramatic as other GRC settlements that come before the Commission. Simply put, the Company filed a relatively "clean" case and as noted in the sections above, the Company has made significant investments that are currently used and useful.

Second, the Settlement's cost of service, rate spread, and rate design provisions are a reasonable compromise between the Settling Parties. Third, the resolution of the accounting petitions addresses both the need for revenue deferral as well as the associated cost recovery, which reduces the ongoing administrative burden for the parties and the Commission. Fourth and finally, the multiyear rate plan provides rate stability for both customers and the Company, is consistent with the Commission's used and useful policy statement, and it provides a transition period for Northwest Natural while the Commission investigates performance-based ratemaking and multiyear rate plans.

Q. Please elaborate on why is the multiyear rate plan in the public interest?

A. Both the Commission and the Washington state legislature have clearly expressed a preference for multiyear rate plans.[68] Multiyear rate plans provide rate stability, reduce regulatory lag, and reduce the administrative burden on all parties of annual rate filings while still allowing for meaningful review of substantial investments.

As intended by the Commission's used and useful policy statement, the Settlement outlines a review of pro forma additions once they are in service. Only pro forma projects found to meet the used and useful policy statement will be included in Year 2 rates. This agreement goes above and beyond the terms of the Used and Useful Policy Statement, which includes that rates be subject to refund, and creates further protection for customers by creating a 3-million-dollar cap on the Year 2 increase. This cap exists regardless of whether NW Natural places more than that amount in service prior to Year 2 rates going into effect. Under this agreement customers know that the maximum increase in their year two rates will be 3 million, and the increase could potentially be less. In exchange, the Settling Parties agreed not to challenge the current level of indirect offsetting factors already included in the Year 2 rate calculation during the Year 2 review process. This provision provides some assurance to the Company about the indirect offsetting factors related to new plant additions and simplifies the review process for Year 2

[68] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.,* Dockets UE-190124, UE-190929, UE-190981, & UE-180778, Order 09, 18, ¶ 48 ("We have encouraged all parties in prior proceedings to review carefully the Commission's recently issued Policy Statement on changes to the used and useful statute, RCW 80.04.250, and have strongly urged all parties to consider multi-year rate plans.") (Dec. 14, 2020) (2019 PacifiCorp GRC Order); LAWS OF 2021, ch. 188, § 1.

rates. In sum, the Year 2 review process represents a unique agreement that implements more protections for customers, provides higher revenue certainty for the Company, and exceeds the guidelines of the Commission's Used and Useful Policy Statement.

Q. Is a cap on the revenue requirement increase allowed under the Commission's used and useful policy statement?

A. Certainly. The policy statement lays out a general process for approving pro forma projects that will be in service after the rate effective period. Nothing in the policy statement prohibits the parties from negotiating—and the Commission from approving—a cap on the rate increase from pro forma additions approved and reviewed in a multiyear rate plan.[69] In other words, nothing in statute or the policy statement requires that all used and useful capital additions placed into service after the rate effective date are included in rates.

The same is true for not challenging indirect offsetting factors. Multiyear rate plans often limit the scope of what will be reviewed during the rate plan, and in what manner they will be reviewed. In this instance, the parties are agreeing to a constrained process that caps both the total potential increase and offsetting factors. The benefit from this approach is the added certainty around potential rate changes as well as the reduced administrative burden.

Q. Could these provisions distort the impact that Year 2 actual capital additions

[69] *See* 2019 PacifiCorp GRC Order at 24-25 ¶¶ 61-62 (Approving rate plan with specific procedures and restrictions on the scope of pro forma review process, finding the proposal consistent with the used and useful policy statement).

might have on the Company's overall cost of service?

A. They could, but all multiyear rate plans carry that risk to some degree. The limited scope of review in the subsequent years of a multiyear rate plan means that, for example, the Company's cost of capital may be lower than what the parties agreed. As the Commission has recently acknowledged,[70] multiyear rate plans strike a balance between the ability to review and adjust subsequent years, and the certainty/stability provided by limiting the scope of review.

Q. What impact does ESSB 5295 have on this agreement?

A. ESSB 5295 went into effect on July 25, 2021 but it does not impact this settlement. The law directs the Commission to "conduct a proceeding to develop a policy statement addressing alternatives to traditional cost of service rate making, including performance measures or goals, targets, performance incentives, and penalty mechanisms."[71] Beginning January 1, 2022, the law requires, among other things, that electric and gas utilities to include a multiyear rate plan proposal with every rate case filing.[72] The law also requires that the Commission "determine a set of performance measures that will be used to assess a gas or electrical company operating under a multiyear rate plan[,]" but the phrasing of this statutory requirement indicates that it is referring to the multiyear rate plan proposals, which

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[70] *Id.*
[71] LAWS OF 2021, ch. 188, § 1(1).
[72] *Id.* § 2(1).

are only required beginning in 2022.[73]

Staff believes that it would be inappropriate to include performance measures, targets, etc., in the current Settlement. The present settlement represents a set of negotiations that occurred before the new law was adopted. For the present case, Staff supports the Settlement and believes it consistent with the clear direction from the legislature and Commission in favor of multiyear rate plans, albeit without the intended performance measures. Staff believes the Settlement will act as a strong transition mechanism for Northwest Natural while the Commission evaluates both performance measures and new types of multiyear rate plans.

Q. Does this complete your testimony on behalf of Commission Staff?

A. Yes, it does.

C. <u>Statement of AWEC (Bradley G. Mullins)</u>

Q. Please explain why AWEC believes the settlement is in the public interest.

A. AWEC appreciated that NW Natural filed a case that was relatively straight forward, and largely consistent with the Commission precedent. The first-year revenue requirement was based on a historical period with limited pro forma plant additions, which parties had a reasonable opportunity to review. In addition, rather than making its filing based on an inflated cost of capital, NW Natural proposed a realistic cost of capital based on a 9.4% return on equity. Based on its review of potential issues in the filing, including issues such as labor costs and end of period

[73] *See Id*. § 2(7) ("These performance measures may be based on proposals made by the gas or electrical company in its initial application, by any other party to the proceeding in its response to the company's filing, or in the testimony and evidence admitted in the proceeding.").

rate base, AWEC found that a $5.0 million first year revenue requirement was reasonable.

For the second-year revenue requirement, the settlement requires NW Natural to cap the additional recovery at $3.0 million, which is less than the revenue requirement associated with the new capital projects NW Natural plans to put into service by the rate effective date of the second year. The settlement also provides a reconciliation and review process, that will result in rate adjustments to the extent a project is not placed into service by the rate effective date. AWEC found this approach to be reasonable, particularly given the magnitude of the Horizon IT project. While AWEC expects that NW Natural will be diligent in managing the cost of Horizon, there is always a risk that large IT projects will come in over budget, particularly when compared against early-stage budget estimates, such as those considered in this docket. By imposing a cap on cost recovery in year two, rate payers are not exposed to budget risk for the duration of the rate plan with respect to Horizon and the other capital projects identified for recovery in year two, even though NW Natural may seek recovery of prudently incurred costs that exceed the budget(s) in future rate proceedings.

Finally, the settlement provides a rate-spread that recognizes certain customer classes, including large customers, are materially above parity in NW Natural's cost of service study. While these customers are still subject to material rate increases, a slightly smaller amount of revenues are allocated to those classes, bringing them closer to parity.

D. Statement of TEP (Shawn M. Collins)

Q. Mr. Collins, could you please summarize the purpose of your testimony?

A. The purpose of my testimony is to provide support for approval of the Agreement. My testimony focuses on the elements of the Agreement that impact low-income customers within Northwest Natural's service territory and explains why TEP believes the Agreement is in the public interest.

Q. Please provide a summary of the elements of the Agreement that are particularly beneficial to low-income customers.

A. The Agreement includes several components that specifically address low-income customer issues. These include:

- maintaining the GREAT Advisory Group,
- requiring annual reports on low-income programs, and
- completing a low-income evaluation study on a set timeline.

Q. Please explain TEP's support for maintaining the GREAT Advisory Group.

A. TEP supports maintaining advisory groups for the bill assistance and weatherization programs for all of Washington's regulated energy utilities. The settlement of NW Natural's last general rate case in 2018 created the GREAT Advisory Group, set four goals for the Advisory Group's work, and established a minimum frequency for Advisory Group meetings. This Agreement requires the continued use of the Advisory Group, as agreed in the previous settlement, consistent with the practice of the other energy utilities in this state.

Q. Are there new terms in the Agreement regarding the GREAT Advisory Group?

A. Yes, the Agreement adds two new terms regarding the Advisory Group's activities.

First, the Advisory Group will review the GREAT Program structure and mechanisms to expand access to bill assistance. TEP supports requiring the Advisory Group to review the program structure and additional mechanisms to expand access to bill assistance. This will provide an opportunity for stakeholders and the Company to suggest improvements to the GREAT Program.

Second, the Advisory Group will annually review the sufficiency of funding levels for the GREAT Program and suggest any necessary adjustments. TEP supports requiring the Advisory Group to annually review funding levels because the Agreement does not adjust the funding cap for the GREAT Program, which has remained at $500,000 for many years. TEP hopes that the Company will modify its administration of the GREAT Program such that assistance is provided to more customers, which could cause the program to reach or exceed the cap. An annual review provides an opportunity for stakeholders and the Company to propose an increase in funding levels before Northwest Natural's next GRC, should such an increase be necessary. Providing a mechanism to increase funding levels before the Company's next GRC is particularly important in the context of this Agreement's multi-year rate plan.

Q. Please explain TEP's support for an annual report on low-income programs.

A. TEP supports requiring annual reports on low-income programs so that stakeholders and the Commission can review the program's effectiveness at providing funds and services to customers, and the energy burden faced by low-income customers. TEP supports requiring annual reporting on low-income programs for all of Washington's regulated energy utilities. Northwest Natural is the only regulated energy utility currently without such a requirement.

Q. Please explain TEP's support for the low-income evaluation study.

A. This written report will identify ways to improve the GREAT program, consistent with the goals of the Advisory Group. Low-income needs assessments have been put in place for Cascade, Puget Sound Energy, and Avista.[74] Such evaluations are very useful to the companies, stakeholders and the Commission in making policy decisions about funding and program design. The Company agreed to perform such an evaluation—paid for by shareholders—in the settlement of its last GRC, but has yet not started this work.

Q. Are there new terms in the Agreement regarding the low-income evaluation?

A. Yes, the settlement adds two new terms regarding the low-income study. First, it requires the Company, in consultation with the Advisory Group, to hire an independent third party to perform the study. TEP supports requiring an independent third party to perform the study so that the evaluation is not biased towards the current program design and the evaluator can make its recommendations free from the influence of any party. Second, it adds a deadline for completing the study. TEP supports adding a deadline so that the Company completes the study in a timely manner.

Q. Are there other aspects of the Agreement that you wish to address?

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[74] *Washington Utilities & Transportation Commission v. Cascade Natural Gas*, UG-152286, Order 04, ¶ 10; *In the Matter of the Joint Application of Puget Sound Energy et al.*, Docket UE-180680 (Macquarie Sale), Order 06 (Corrected), ¶67 and Commitment 44; Eastern Washington University, Institute for Public Policy and Economic Analysis, *An Estimate of the Number of Households In Poverty Served By Avista Utilities In Washington State,* Brian Kennedy and D. Patrick Jones, Ph.D. (May 2015).

A. Yes. The agreement to limit the size of the overall rate increase to a lower level than the initial request is a tangible benefit of the settlement, particularly for low-income customers. An important aspect of this is that the overall authorized rate of return was reduced from the Company's initial request of 6.913 percent to 6.814 percent, a more reasonable level under current conditions. Another term of the Joint Settlement important to The Energy Project is the ability for non-Company Parties to challenge the prudence and costs of all Year Two capital projects in the Year Two review and reconciliation process. The final costs of these projects are not yet known, and the Company retains the burden of demonstrating that it continues to act prudently in administering these projects.

Q. Does TEP support approval of the Agreement?

A. Yes. TEP believes the Agreement is in the public interest and recommends that it be approved by the Commission. TEP fully supports the Agreement filed with the Commission and appreciates Northwest Natural and the other parties' work to reach this agreement.

Q. Does this conclude your statement?

A. Yes.

VI. CONCLUSION

Q. What is the effect of the Agreement reached by the Settling Parties?

A. The Agreement represents a negotiated compromise among the Settling Parties. Thus, the Settling Parties agree that no particular Settling Party shall be deemed to have approved the facts, principles, methods, or theories employed by any other in arriving at these stipulated provisions, where not clearly stated in this Joint

Testimony. In addition, the Settling Parties have reserved the right to withdraw from the Agreement if the Commission imposes any additional material conditions or rejects any material part of the Agreement.

Q. Does this conclude the Settling Parties' Joint Testimony in support of the Agreement?

A. Yes.