

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

NORTHWEST NATURAL GAS COMPANY,

Respondent.

DOCKET UG-200994

DOCKET UG-200995

DOCKET UG-200996

DOCKET UG-210085

FULL MULTI-PARTY SETTLEMENT
AGREEMENT

I. PARTIES

1 This Full Multi-Party Settlement Agreement (“Agreement”) is entered into by Northwest Natural Gas Company (“NW Natural” or “Company”), Commission Staff (“Staff”), Alliance of Western Energy Consumers (“AWEC”), and The Energy Project (“TEP”) (collectively, “Settling Parties”). This Agreement represents a comprehensive settlement under WAC 480-07-730(3)(a) of all issues in this case by the Settling Parties. 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”), who is unopposed to the Agreement.

II. INTRODUCTION

2 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 approximately 8.0 percent increase to overall revenues and 12.7 percent to gross margin. When combined with various rate mitigation proposals, the Company’s Year One proposal would have resulted in an overall revenue increase of \$3.9 million, or 5.0 percent (12.7 percent

increase to gross margin). The Company further requested authority to increase Year Two revenues by \$3.2 million, or approximately 3.7 percent (5.7 percent increase to gross margin).

3 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.

4 In 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.

5 On January 7, 2021, the Washington Utilities and Transportation Commission (“Commission”) entered Order 01 suspending the Company’s rate case filing and commencing discovery. Representatives of all parties to this docket appeared at settlement conferences held on April 13, April 19, April 21, April 29, and May 3, 2021, for the purpose of narrowing or resolving the contested issues in this proceeding. Those discussions led to this Agreement.

6 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-210085.¹

¹ *Wash Utils. & Transp. Comm’n v. Nw. Nat. Gas Co.*, Docket UG-200994 et al., Order 04 (May 11, 2021), and *Notice of Errata to Order 04*, issued on May 17, 2021.

7 The Settling Parties have reached a full settlement of the issues in this proceeding. The settlement also resolves the issues raised in the Horizon-related and CPA filings discussed above. The Settling Parties understand that this Agreement is subject to approval by the Commission and hereby respectfully request that the Commission issue an order approving this Agreement in its entirety.

III. AGREEMENT

A. Multi-Year Rate Plan

8 The Settling Parties agree to a two-year rate plan. Year One begins on November 1, 2021 and ends on October 31, 2022. Year Two begins on November 1, 2022 and ends on October 31, 2023.

9 Year One Revenue Requirement Increase. Settling Parties agree to recommend a revenue requirement increase for Year One of \$5.0 million. 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.

10 Year Two Revenue Requirement Increase. Settling Parties agree to recommend a revenue requirement increase for Year Two of \$3.0 million, which is based on the Year Two rate cap described in paragraph 20 of this Agreement. The revenue requirement increase for Year Two is subject to rate impact mitigation provisions and subject to later refund, as described below. This requested revenue requirement increase for Year Two includes the addition to rate base of the following capital projects that are expected to be in-service prior to the beginning of the rate effective date for Year Two (Attachment 1 to this Agreement), as well as offsetting savings:

- a. The Horizon 1 Project²
- b. The Vancouver Resource Center Project-Phase 2³
- c. White Salmon Reinforcement Project⁴
- d. SE 1st Street Grading Project (Phase 2)⁵
- e. Battle Ground Gate Station Rebuild Project⁶
- f. Ridgefield Gate Station Rebuild Project⁷
- g. Mist Well Rework Program 2021⁸
- h. Mist Corrosion Abatement Project (Phase 4)⁹

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The Year Two revenue requirement increase also includes:

- a. Ongoing incremental operation and maintenance (“O&M”) costs associated with the Horizon 1 Project, netted against offsetting savings.
- b. Deferred one-time implementation costs associated with the Horizon 1 Project,¹⁰ and amortizing those costs over a 10-year period beginning in Year Two.¹¹ These one-time start-up costs entail approximately \$8.4 million on a system-wide basis, or \$800 thousand on a Washington-allocated basis.¹² The Settling Parties recommend approval of the Company’s deferral for the one-

² NW Natural Direct Testimony of Jim R. Downing, Exh. JRD-1T at 44:10-12.

³ NW Natural Direct Testimony of Zachary D. Kravitz, Exh. ZDK-1T at 18:13-14.

⁴ NW Natural Direct Testimony of Joe S. Karney, Exh. JSK-1T at 9:3-4.

⁵ Karney, Exh. JSK-1T at 6:9-10.

⁶ Karney, Exh. JSK-1T at 11:16-17.

⁷ Karney, Exh. JSK-1T at 11:16-18.

⁸ Karney, Exh. JSK-1T at 24:16-17.

⁹ Karney, Exh. JSK-1T at 26:14-15.

¹⁰ *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).

¹¹ Kravitz, Exh. ZDK-1T at 25:23-26:4; *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 (Dec. 18, 2020).

¹² Kravitz, Exh. ZDK-1T at 25:16-18; Downing, Exh. JRD-1T at 44:13-14.

time costs of the Horizon 1 Project in UG-200996 and the Company's accounting petition in UG-200995 to extend the depreciable life to 10 years.

- c. One-half of prospective CPA costs, or \$74 thousand of Washington-specific costs. CPA costs are incurred on a biennial basis, and each CPA is expected to entail approximately \$148 thousand of Washington-specific costs.

12 Detail Regarding Offsetting Factors. The \$3.0 million revenue requirement increase in Year Two, as agreed upon in settlement, accounts for the following offsetting factors:

- a. Depreciation reserve adjustments for all new projects;
- b. O&M savings (such as avoided additional costs and reduced O&M expenses associated with the Horizon 1 Project);¹³
- c. Revenue growth;
- d. Rate-year plant retirements directly associated with the Year Two projects (Attachment 1 to this Agreement).

B. Year Two Review and Reconciliation Process

13 The Settling Parties agree that the Year Two review and reconciliation process will be limited to a review of the capital projects outlined above in paragraph 10 of this Agreement and related costs. All other Revenue Requirement components shall remain as outlined in Year One.

14 Year Two Pro Forma Filing. The Settling Parties agree that, when the final costs for the pro forma projects proposed for inclusion in Year Two rates are known and measurable, NW Natural will submit in this docket, and serve parties to this docket, evidence (either directly or by reference to previously filed evidence) sufficient to demonstrate the projects'

¹³ Downing, Exh. JRD-1T at 45:11-20, 52:9-20.

prudence. This Year Two Pro Forma Filing will provide evidence regarding any changes to the projects and related costs, including but not limited to:

- a. The justification for the project, including supporting information;
- b. Actual in-service dates;
- c. Actual final costs, as well as explanations for significant cost variances;
- d. Any changes to the projects themselves (for example, deviations from the scope and descriptions provided in the initial filing in this case);
- e. Evidence that any cost overruns and the decision to continue to invest in the project under any relevant changed circumstances was prudent;
- f. Updated information on offsetting factors presented in this case.

15 The Year Two Pro Forma Filing must be filed no later than February 28, 2023.

16 The burden of demonstrating prudence of Year Two projects is on the Company. This Agreement is not intended to and does not shift the burden of prudence onto the noncompany parties.

17 The non-Company parties to this docket, including the Settling Parties and Public Counsel (“the non-Company Parties”) will have the opportunity to review the evidence and have the ability to conduct discovery similar to discovery allowed in adjudicative proceedings (including, but not limited to, issuing data requests). Interested non-Company Parties may submit to this docket a response notifying the Commission whether the final reported costs are accepted or contested by that party.

18 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. The non-Company Parties may file responses after all Year Two projects have been reported. 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.

19 After the non-Company Parties submit their responses to the Commission, NW Natural will file a petition to amend the final order in this docket 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 to Year Two rates based on updated information or explain that no changes to Year Two rates are necessary. 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.

20 Possible Changes in Year Two Rates Based on Review Process. The pro forma adjustment to Year Two rates shall not exceed the current \$3.0 million amount (“Year Two Rate Cap”). However, the Company reserves the right to request recovery of any prudently incurred costs above the \$3.0 million Year Two Rate Cap in a subsequent general rate case.

21 Adjustments to Year Two rates shall be on a portfolio basis according to actual costs incurred for projects specified in paragraph 10 of this Agreement. Actual costs for projects that are above or below their current estimated amounts will be accepted if they were prudently incurred, provided that on a portfolio basis the rate increase does not exceed the \$3.0 million Year Two Rate Cap.

22 In the event that any of the projects listed in Attachment 1 to this Agreement are not placed in-service by November 1, 2022, the costs for those projects will be removed from the portfolio of projects included in Year Two and will not be included in Year Two rates. The

\$3.0 million Rate Cap will not be reduced.

23 The non-Company Parties reserve the right to evaluate the projects and to account for newly discovered or materialized direct offsetting factors to the pro forma capital projects. Offsetting factors considered in this context will be limited to offsets that might occur directly as a result of NW Natural’s investment in the projects and will not include offsets that do not directly result from the investment in the projects. However, the Settling Parties agree that the revenue growth and direct retirements of plant offsetting factors listed in paragraph 12 of this Agreement are accepted as estimates and will not be contested by the Settling Parties.

C. Cost of Capital

24 The Settling Parties agree to recommend that NW Natural receive an overall authorized rate of return (“ROR”) of 6.814 percent. For the purposes of the settlement, the Settling Parties have agreed not to specify the underlying inputs to the ROR.

D. Rate Mitigation

25 The Settling Parties agree that the Company’s Year One Rate Mitigation Proposals (suspension of its historical Energy Efficiency Deferral tariff¹⁴ and credit of Truck Lot proceeds¹⁵) in the total estimated amount of \$2.3 million will be spread over Year One and Year Two of the rate plan, rather than only Year One as proposed in the Company’s initial filing. The Year Two rate mitigation will also include a credit to customers from the net gain from selling the Astoria Resource Center property in the amount of \$43 thousand, as proposed in the Company’s initial filing.¹⁶ Consistent with the Company’s initial filing, these amounts

¹⁴ *In re Nw. Nat. Gas Co. dba NW Nat. Schedule 215: Adjustment to Rates for Energy Efficiency Service and Programs*, Docket UG-200796.

¹⁵ *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).

¹⁶ Kravitz, Exh. ZDK-1T at 21:1-6.

will be spread to customers on an equal percent of margin basis. Attachment 2 to this Agreement shows the rate credit by rate schedule. The Settling Parties agree that the rate mitigation proposals will be applied after the revenue requirement increases provided for in paragraphs 9 and 10 of this Agreement are applied to the rate schedules.

E. CPA Deferral

26 The Settling Parties agree that NW Natural’s Petition for an Accounting Order Authorizing Deferred Accounting Treatment of the CPA Costs¹⁷ should be approved by the Commission and that the actual costs included in the deferral account (estimated to be \$148,000) should be amortized over one year through a separate, temporary schedule in Year One. The treatment of CPA costs in Year Two and beyond is specified in paragraph 11(c) of this Agreement.

F. Rate Spread

27 The Settling Parties agree to the Rate Spread included in Attachment 3 to this Agreement as a basis for spreading the recommended Year One and Year Two revenue requirement increases. Attachment 2 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.

G. Gas Residential Energy Assistance Tariff (“GREAT”) Program Advisory Group

28 The Company shall maintain an Advisory Group for the GREAT Program (“Advisory Group”), consisting of NW Natural, TEP, Public Counsel, Staff, agency representatives, and other interested stakeholders.

¹⁷ *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).

29 The Company shall maintain the following goals for the Advisory Group: to keep
customers connected to natural gas service; to provide assistance to more customers than are
currently served; to lower the energy burden of GREAT Program participants; and to collect
data necessary to assess GREAT Program effectiveness and to inform ongoing policy
discussions.

30 The Company shall hold Advisory Group meetings at least twice a year.

31 The Advisory Group will annually review the sufficiency of funding levels for the
GREAT Program and suggest any necessary adjustments.

32 Consistent with the goals adopted for the Advisory Group, the Advisory Group will
periodically review the GREAT Program structure and mechanisms to expand access to bill
assistance.

H. GREAT Program Annual Report

33 The Company shall file annual reports of GREAT Program status with the Commission
on February 1 of each year beginning in 2022.

34 The contents of the annual report shall be determined in consultation with the Advisory
Group. The Company shall provide a draft report to the Advisory Group for comment at least
60 days before filing the first annual report.

35 The annual report shall include, at the minimum, the following information:

- a. The amount of GREAT Program benefits disbursed to the Company's
customers in Washington service areas as well as the amount of average
GREAT Program benefit in the most recent five program years;
- b. The amount of benefits from the federal Low-Income Home Energy Assistance
Program ("LIHEAP") received by the Company's customers in Washington

- service area as well as the amount of average LIHEAP benefit in the most recent five program years;
- c. The number of customers who received GREAT Program benefits in the most recent five program years;
 - d. The number of customers who received LIHEAP benefits in the most recent five program years;
 - e. The number of customers who received both GREAT Program and LIHEAP benefits in the most recent five program years;
 - f. The average natural gas usage and average bill for the Company's low-income customers and for the Company's non-low income customers;
 - g. The Company's communication and outreach activities in the last GREAT Program year and the plan for the current program year;
 - h. Any GREAT Program changes in the last program year and a forward-looking program outlook for the current program year.

I. Low-Income Evaluation Study

36 The Company shall work in consultation with the Advisory Group to produce an independent low-income evaluation study to assess the need for low-income assistance among the Company's Washington customers, including low-income weatherization, and to identify ways to improve the GREAT Program to better align with the goals set in paragraph 29 of this Agreement.

37 The Company shall not seek recovery of the costs of the low-income evaluation study from customers.

38 The Company shall hire a third party, in consultation with the Advisory Group, to

perform the independent low-income evaluation study.

39 The Company shall file the written study with the Commission within 18 months after
the final order adopting this Agreement.

IV. **EFFECT OF THE SETTLEMENT AGREEMENT**

40 Binding on Settling Parties. The Settling Parties agree to support the terms of this
Agreement throughout this proceeding and recommend that the Commission issue an order
approving and adopting this Agreement. The Settling Parties understand that this Agreement
is subject to Commission approval. If the Commission does not accept this Agreement, then
the Settling Parties shall be free to assert their pre-settlement positions and agree that neither
this Agreement nor any statements or admissions contained herein shall be admissible or used
for any purpose in this docket or any other proceeding for any purpose; provided, however,
that any Settling Party may disclose the existence or terms of this Agreement when required to
do so by law.

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

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

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

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

45 Reservation of Rights. Each Settling Party may offer into evidence its pre-filed testimony and exhibits as they relate to the issues in this proceeding, together with such evidence in support of this Agreement as may be offered at the time of the hearing on this Agreement. If the Commission rejects all or any material portion of this Agreement, or adds additional material conditions, each Settling Party reserves the right, upon written notice to the Commission and all Settling Parties to this proceeding within seven (7) days of the date of the Commission's Order, or within any shorter notice period the Commission may require under WAC 480-07-750(2)(b)(ii), to withdraw from this Agreement. If any Settling Party exercises its right of withdrawal, this Agreement shall be void and of no effect, and the Settling Parties will support a joint motion for a procedural schedule to address the issues that would otherwise have been settled herein.

46 News Releases. All Settling Parties agree to include in any news release or announcement a statement that Staff's recommendation to approve the Agreement is not binding on the Commission itself. This subsection does not apply to any news release or announcement that otherwise makes no reference to Staff.

47 No Precedent. The Settling Parties enter into this Agreement to avoid further expense, uncertainty, and delay. By executing this Agreement, no Settling Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving

at this Agreement, and, except to the extent expressly set forth in this Agreement, no Settling Party shall be deemed to have agreed that this Agreement is appropriate for resolving any issues in any other proceeding.

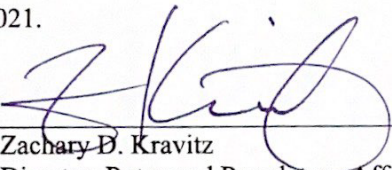
48 Public Interest. The Settling Parties agree that this Agreement is in the public interest.

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

Entered into this 23rd day of July 2021.

Northwest Natural Gas Company:

By:



Zachary D. Kravitz
Director, Rates and Regulatory Affairs

Staff of the Washington
Utilities and Transportation
Commission:

By:

Nash Callaghan
Assistant Attorney General

AWEC:

By:

Chad M. Stokes
Cable Huston LLP

The Energy Project:

By:

Yochanan Zakai
SHUTE, MIHALY & WEINBERGER LLP

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Entered into this 23rd day of July 2021.

Northwest Natural Gas Company: By: _____

Zachary D. Kravitz
Director, Rates and Regulatory Affairs

Staff of the Washington
Utilities and Transportation
Commission:

By: _____


Nash Callaghan
Assistant Attorney General

AWEC:

By: _____

Chad M. Stokes
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The Energy Project:

By: _____

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Entered into this 23 day of July 2021.

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

Staff of the Washington
Utilities and Transportation
Commission: By: _____
Nash Callaghan
Assistant Attorney General

AWEC: By:  _____
Chad M. Stokes
Cable Huston LLP

The Energy Project: By: _____
Yochanan Zakai
SHUTE, MIHALY & WEINBERGER LLP

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


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

Entered into this 26th day of July 2021.

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

Staff of the Washington
Utilities and Transportation
Commission: By: _____
Nash Callaghan
Assistant Attorney General

AWEC: By: _____
Chad M. Stokes
Cable Huston LLP

The Energy Project: By:  _____
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