

**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-1Tr

July 27, 2021

Revised August 5, 2021

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	BACKGROUND	6
III.	ELEMENTS OF THE AGREEMENT	9
A.	Multi-Year Rate Plan	9
1.	Year One Rate Increase	13
2.	Year Two Rate Increase.....	13
a.	Discrete Capital Projects.....	15
b.	Horizon 1 Ongoing Net O&M	16
c.	Horizon 1 Deferred One-Time Implementation Costs.....	17
d.	Prospective CPA Costs	19
e.	Offsetting Factors.....	20
3.	Year Two Review and Reconciliation Process	21
B.	Cost of Capital	25
C.	Rate Mitigation	26
D.	CPA Deferral	28
E.	Rate Spread	29
F.	Low-Income Provisions	30
1.	GREAT Program Advisory Group	31
2.	GREAT Program Annual Report.....	32
3.	Low-Income Evaluation Study	33
IV.	THE AGREEMENT SATISFIES THE SETTLING PARTIES’ INTERESTS AND IS CONSISTENT WITH THE PUBLIC INTEREST	35
V.	INDIVIDUAL SETTLING PARTY POSITIONS	35

A. Statement of NW Natural (Zachary D. Kravitz and Kyle T. Walker)35

B. Statement of Staff (Jason L. Ball).....39

C. Statement of AWEC (Bradley G. Mullins).....43

D. Statement of TEP (Shawn M. Collins)45

VI. CONCLUSION.....48

I. INTRODUCTION

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

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

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

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

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

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

1 **background and professional experience.**

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

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

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

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

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

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

1 I have testified in a number of Commission proceedings including the following:
2 PacifiCorp general rate cases (GRCs) in Dockets UE-191024, UE-152253, and UE-
3 140762; the PacifiCorp PCAM review proceeding in Docket UE-170717; Puget
4 Sound Energy (PSE) GRCs in Dockets UE-190529/UG-190530 and UE-
5 170033/UG-170034; PSE's power cost only rate case in Docket UE-141141; Avista
6 Corporation d/b/a Avista Utilities in Dockets UE-200900, UG-200901 and UE-
7 200894 (Consolidated), UE-190334/UG-190335, UE-160228/UG-160229, and
8 UE-1 150204/UG-150205.

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

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

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

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

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

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

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

- 10 • **Multi-Year Rate Plan.** The Settling Parties agree to support NW Natural's
11 proposal for a two-year rate plan, with the first year ("Year One") beginning on
12 November 1, 2021, and the second year ("Year Two") beginning on November
13 1, 2022. Under the agreed-upon rate plan, the Company's ongoing revenue
14 requirement would increase by \$5 million in Year One and by no more than
15 \$3 million in Year Two—as compared to the Company's initial request for an
16 increase of \$6.3 million in Year One and \$3.2 million in Year Two.¹ These
17 amounts are further reduced through rate mitigation measures, described below.
18 The Year Two rate increase would remain subject to refund pursuant to a Year
19 Two review and reconciliation process, as discussed in detail below.
- 20 • **Rate of Return ("ROR").** The Agreement provides for an overall ROR of
21 6.814 percent, down from the Company's proposed ROR of 6.913 percent.²
22 While the Settling Parties have agreed to this overall ROR, the Settling Parties
23 do not specify the underlying ROR inputs of return on equity ("ROE"), cost of
24 long-term and short-term debt, or capital structure.
- 25 • **Rate Mitigation.** The Settling Parties agree to NW Natural's \$2.3 million in
26 proposed rate mitigation measures, including suspension of the historical
27 energy efficiency tariff and two customer credits associated with the sale of the
28 Truck Lot property in Portland, Oregon and property in Astoria, Oregon.³
29 However, the Settling Parties agree that two mitigation measures (energy
30 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).

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

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

- 6 • **Conservation Potential Assessment (“CPA”) Deferral.** The Settling Parties
7 agree that NW Natural’s Petition for an Accounting Order Authorizing
8 Deferred Accounting Treatment of CPA costs⁵ should be approved by the
9 Commission and that the actual costs included in the deferral account should be
10 amortized to all customers on an equal percent of margin basis over one year
11 through a separate, temporary schedule in Year One. The deferred CPA costs
12 are currently estimated to be \$148 thousand. Additionally, because the
13 Company will continue to incur CPA costs on an on-going biennial basis, the
14 Year Two revenue requirement includes one-half of the CPA costs.

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

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

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

31 **Q. Do you recommend approval of the Agreement?**

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

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).

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

II. BACKGROUND

6 **Q. Please describe the Company’s initial general rate case (“GRC”) filing.**

7 A. On December 18, 2020, NW Natural filed a general rate case requesting, among
8 other things, approval for a multi-year rate plan. Under this plan, the Company
9 requested authority to increase revenues from base rates in Year One by
10 \$6.3 million, which would have resulted in an approximate 8.0 percent increase to
11 overall revenues and an approximate 12.7 percent increase to gross margin.⁶
12 Recognizing that the Company’s proposed rate increases were filed against the
13 backdrop of significant impacts of a global pandemic, when many customers are
14 facing hardships in their lives, the Company also offered a number of proposals to
15 mitigate rate impacts in Year One, resulting in an overall revenue increase of
16 \$3.9 million, or 5.0 percent (12.7 percent increase to gross margin), in Year One.⁷

17 For Year Two, the Company requested authority to increase revenues by
18 \$3.2 million—an approximately 3.7 percent increase (5.7 percent increase to gross
19 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.

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

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

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

12 **A.** Yes. Contemporaneously with the filing of its general rate case, NW Natural made
13 two separate filings relating to a major information technology and services project
14 known as the Horizon Project ("Horizon"). First, NW Natural filed a petition for
15 an order authorizing deferred accounting treatment for certain one-time operations
16 and maintenance costs associated with developing and implementing the first phase
17 of Horizon. This filing was docketed as UG-200996. NW Natural also filed a
18 petition for an accounting order authorizing the Company to use a ten-year
19 amortization period for its capitalized cloud-based software license and
20 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.

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

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

5 A. Yes. On May 11, 2021, the Commission granted a motion filed by all parties to
6 this docket consolidating the rate case filing with UG-200995, UG-200996 and UG-
7 210085.¹³

8 **Q. Did the parties conduct discovery on the Company’s rate case filing?**

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

16 **Q. Did the parties engage in settlement discussions?**

17 A. Yes. The parties engaged in settlement discussions on April 13, April 19, April
18 21, April 29, and May 3, 2021. These extensive discussions led to the Agreement
19 described herein.

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

22 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.

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

3 **Q. Do all Settling Parties support the Agreement?**

4 A. Yes. All Settling Parties support the Agreement.

III. ELEMENTS OF THE AGREEMENT

A. Multi-Year Rate Plan

5 **Q. What is a multi-year rate plan?**

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

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

11 A. The Commission has indicated that multi-year rate plans can help (1) reduce
12 regulatory lag;¹⁴ (2) relieve stakeholders and the Commission of the regulatory
13 burdens of frequent rate cases;¹⁵ and (3) provide rate stability and predictability for
14 utility customers.¹⁶ The Commission has indicated that it retains discretion to
15 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.

1 general rate case during the period of the rate plan.¹⁸

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

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

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).

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

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

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

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

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

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.

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

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

5 A. The Settling Parties agree to support authorization of a two-year rate plan.
6 Consistent with the proposal in the Company's initial filing, Year One would begin
7 on November 1, 2021, and end on October 31, 2022.²⁷ Year Two would begin on
8 November 1, 2022, and end on October 31, 2023.²⁸ Incremental Year Two rates
9 would remain subject to refund, pursuant to the review and reconciliation process
10 described below.

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

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

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.

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

4 **1. Year One Rate Increase**

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

6 A. The Company initially requested authority to increase revenues in Year One from
7 base rates by \$6.3 million, which would have resulted in an approximate
8 8.0 percent increase to base rates.³¹

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

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

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

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

19 **2. Year Two Rate Increase**

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

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

³⁰ WUTC 2020 Policy Statement at ¶ 41.

³¹ Anderson, Exh. DHA-1T at 9:13-18; Order 01 ¶ 2.

1 base rates by \$3.2 million, which would have resulted in an approximate
2 3.7 percent increase to base rates.³²

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

5 A. The Settling Parties agree to support a revenue requirement increase to Year Two
6 base rates of \$3.0 million, subject to the review and reconciliation process
7 described below. This amount includes offsetting savings, but does not include the
8 rate impact mitigation provisions, which will further reduce the revenue
9 requirement, discussed in Section C, below. Following the Year Two review and
10 reconciliation process, final base rates will increase by up to—but no more than—
11 \$3.0 million, reflecting final prudence determinations.

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

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

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

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

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

1 \$3.3 million. However, under the agreed-upon cap, no more than \$3.0 million in
2 costs will be included in final base rates.

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

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

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

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

14 **a. Discrete Capital Projects**

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

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

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

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).

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

6 Each of the above projects is expected to be placed in service prior to November 1,
7 2022—the beginning of the rate effective date for Year Two.

8 **Q. What happens if one of these projects does not enter service by November 1,**
9 **2022?**

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

15 **b. Horizon 1 Ongoing Net O&M**

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

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

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.

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

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

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

8 **c. Horizon 1 Deferred One-Time Implementation Costs**

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

10 A. On December 18, 2020, NW Natural filed a Petition for an Accounting Order
11 Authorizing Deferred Accounting Treatment (“Horizon Deferral Petition”)
12 associated with the one-time start-up costs for Horizon 1.⁴⁴ In the Horizon Deferral
13 Petition, NW Natural sought authority to defer the start-up costs associated with
14 developing and implementing the first phase of the Horizon initiative, pursuant to
15 WAC 480-07-370(1)(b).⁴⁵ These start-up costs are expected to total approximately
16 \$83 thousand on a Washington-allocated basis.⁴⁶

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

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.

1 Amortization Petition”), to reflect the depreciable life of the Horizon 1 project.⁴⁷

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

4 A. Not yet. As part of this Agreement, the Settling Parties agree to support granting
5 both Horizon 1 petitions within this general rate case proceeding, which already
6 addresses cost recovery for the Company’s Horizon 1 investment and ongoing
7 O&M costs. As discussed above, on May 11, 2021, the Commission granted a
8 motion filed by all parties to this docket consolidating the rate case filing with the
9 Horizon 1 petition dockets, UG-200995 and UG-200996.⁴⁸

10 **Q. What is the Settling Parties’ specific proposal concerning the Horizon**
11 **petitions?**

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

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

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

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.

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

12 **d. Prospective CPA Costs**

13 **Q. Please explain the basis for NW Natural’s CPA costs.**

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

21 **Q. Please describe NW Natural’s CPA costs.**

22 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).

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

6 **Q. Please describe the prospective CPA costs.**

7 A. The Settling Parties agree that one-half of the prospective CPA costs or
8 \$74 thousand, should be included in base rates beginning in Year Two. Because
9 utilities are required to perform a CPA every two years, the Company would over-
10 collect if it were to include the entire CPA cost amount in base rates for annual
11 recovery. Accordingly, the Settling Parties have included one-half of the
12 prospective CPA costs in base rates, which aligns cost recovery on an annual basis
13 with the CPA costs that will be incurred on a biennial basis. The Settling Parties
14 recommended beginning the amortization in Year Two beginning November 1,
15 2022, because the recovery of the CPA over the next two years will align with the
16 Company’s next biennial reporting period.

17 e. **Offsetting Factors**

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

21 A. The Settling Parties considered and accounted for a variety of offsetting factors,
22 namely: (a) a depreciation reserve adjustment for all new projects, such that any
23 depreciation incurred between a project’s in-service date and the November 1, 2022

1 rate effective date is accounted for by taking the actual book value at the time rates
2 are effective; (b) O&M savings tied to new projects; (c) revenue growth; and
3 (d) rate-year plant retirements associated with Year Two projects—in this case, the
4 retirement of the current SAP⁵⁰ enterprise resource planning platform.

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

9 **3. Year Two Review and Reconciliation Process**

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

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

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

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

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

6 **Q. Please describe the Settling Parties’ agreement with respect to the Year Two
7 Pro Forma Filing.**

8 A. The Settling Parties have agreed that NW Natural will submit a Year Two Pro
9 Forma Filing following the Year Two rate effective date (November 1, 2022), and
10 no later than February 28, 2023.⁵¹ This Year Two Pro Forma Filing will include:

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

21 The Year Two Pro Forma Filing will include any new evidence relevant to the
22 prudence of the Company’s expenditures. Where relevant, the Year Two Pro Forma
23 Filing may include previously-submitted data responses and references to
24 previously-filed evidence. The Settling Parties agree that NW Natural may also
25 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.

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

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

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

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

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

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

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

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

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

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

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

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

20 **Q. When will the Year Two rates become final?**

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

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

3 A. The Settling Parties agree that the pro forma adjustment to Year Two rates shall not
4 exceed the agreed-upon \$3 million amount. The Settling Parties agree to apply this
5 \$3 million cap on a portfolio basis—that is, upon review of the pro forma
6 adjustment to Year Two rates, increases or decreases to various Year Two cost
7 components, listed above, will be netted against each other. If, for example, one
8 project's costs increase and another project's costs decrease, these amounts will be
9 added together when determining whether the \$3 million cap is reached. Through
10 this portfolio approach, prudently incurred costs above the currently estimated
11 amounts will be accepted, so long as the total revenue requirement increase for Year
12 Two does not exceed the \$3 million cap.

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

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

B. Cost of Capital

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

21 A. NW Natural initially proposed to reduce its overall ROR from the currently

1 authorized 7.161 percent⁵³ to 6.913 percent,⁵⁴ representing a reduction in the long-
2 term cost of debt and maintaining the current ROE of 9.4 percent.

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

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

8 **C. Rate Mitigation**

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

10 A. In addition to delaying certain capital projects,⁵⁵ NW Natural proposed two rate
11 mitigation measures for Year One of the multi-year rate plan. First, NW Natural
12 proposed to suspend the Company's amortization of its energy efficiency deferral,
13 reducing the proposed revenue requirement by an estimated \$1.4 million.⁵⁶ This
14 suspension will not impact NW Natural's energy efficiency programs; rather, this
15 mitigation tool pauses the amortization of a regulatory asset for historical amounts
16 related to the Company's energy efficiency programs. The Company will continue
17 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

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.

1 Company's Block 24 property, which is also called the "Truck Lot,"⁵⁷ in Portland,
2 Oregon, reducing the proposed revenue requirement by \$840 thousand. For Year
3 Two, NW Natural proposed to credit customers with the net gain from selling the
4 Astoria Resource Center property, reducing the proposed revenue requirement by
5 \$43 thousand.⁵⁸

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

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

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

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

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

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

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.

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

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

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

D. CPA Deferral

13 **Q. Please describe NW Natural’s CPA deferral.**

14 A. As noted above, NW Natural is incurring costs to produce a CPA, which will
15 identify all available and cost-effective energy efficiency measures. On February
16 8, 2021, the Company filed a petition to track and defer CPA costs associated with
17 developing the first 2022 CPA (“CPA Deferral Petition”).⁶¹ The Company
18 currently estimates that these CPA costs will entail approximately \$148 thousand.

19 **Q. What is the Settling Parties’ agreement concerning the CPA Deferral Petition?**

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

⁶¹ Docket UG-210085, Petition.

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

E. Rate Spread

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

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

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

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

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

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.

1 **rate spread and rate design proposals?**

2 A. The Commission considers several factors when determining rate spread and rate
3 design, including “fairness, perceptions of equity, economic conditions in the
4 service territory, gradualism, and rate stability.”⁶⁶

5 **Q. What is the agreement on rate spread?**

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

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

11 A. Attachment 2 to this Agreement shows the Year One and Year Two incremental
12 revenue requirement allocation by rate schedule, inclusive of the Rate Mitigation
13 Proposals and CPA Deferral.

F. Low-Income Provisions

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

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

⁶⁶ WAC 480-85-010(2).

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

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

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

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

13 ***1. GREAT Program Advisory Group***

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

16 A. The Settling Parties agree that NW Natural will maintain the Advisory Group for
17 the GREAT Program, consistent with the Settlement Agreement in the Company's
18 2018 GRC.⁶⁷ The membership, goals, minimum frequency of the Advisory Group
19 meetings, and program review timing remain the same as provided in the 2018
20 GRC.

21 **Q. Please describe the membership of the Advisory Group.**

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

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

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

2 **Q. What are the goals of the Advisory Group?**

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

7 **Q. How often will the Advisory Group convene?**

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

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

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

16 **2. GREAT Program Annual Report**

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

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

- 1 • the quantity of benefits distributed to NW Natural’s Washington customers,
2 both as a total and on an average-per-customer basis, in the most recent five
3 years;
- 4 • the quantity of Low Income Home Energy Assistance Program (“LIHEAP”)
5 benefits received by NW Natural’s Washington customers, both as a total and
6 on an average-per-customer basis, in the most recent five program years;
- 7 • the number of NW Natural’s Washington customers who received GREAT
8 Program benefits in the most recent five program years;
- 9 • the number of NW Natural’s Washington customers who received LIHEAP
10 benefits in the most recent five program years;
- 11 • the number of NW Natural’s Washington customers who received both
12 GREAT Program and LIHEAP benefits in the most recent five program years;
- 13 • the average natural gas usage and average monthly bill for the Company’s low-
14 income customers and for the Company’s non-low-income customers in the last
15 calendar year;
- 16 • NW Natural’s communication and outreach activities in the preceding
17 12 months, and the plan for such activities in the subsequent 12 months;
- 18 • any changes to the GREAT Program in the previous 12 months and a forward-
19 looking assessment for the subsequent 12 months.

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

22 **Q. To whom will the Annual Report be provided?**

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

26 **Q. Is the Annual Report requirement consistent with the Commission’s**
27 **requirements for other investor-owned utilities?**

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

30 **3. *Low-Income Evaluation Study***

31 **Q. Please summarize the Settling Parties’ agreement concerning the Low-Income**

1 **Evaluation Study.**

2 A. The Settling Parties agree that NW Natural will, in consultation with the Advisory
3 Group, produce an independent Study to assess the need for low-income
4 assistance—including weatherization—among the Company’s Washington
5 customers. NW Natural will hire a third party, selected in consultation with the
6 Advisory Group, to independently perform the Study and prepare a written report.
7 Once the Study has been completed, the Company will file the written study with
8 the Commission. The written study will be filed with the Commission no later than
9 18 months after a final order is issued adopting the Settling Parties’ Agreement.
10 NW Natural will not seek to recover the costs associated with producing the Study
11 from customers.

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

13 A. Yes. In the 2018 GRC, the Company committed to work with the Advisory Group
14 to produce a low-income evaluation study to assess the need for low-income
15 assistance among its Washington customers, including low-income weatherization,
16 and to identify ways to improve the GREAT Program to better align with the
17 four goals. However, due to the implementation of new low-income programs as a
18 result of the COVID-19 pandemic and various considerations, the Company and
19 GREAT Advisory Group have not started the project. The Agreement reiterates
20 the Company’s prior commitment, but also specifies that the Company will hire an
21 independent third-party to perform the study and to file the completed study with
22 the Commission within 18 months after the Commission’s final order adopting the
23 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

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

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

4 Q. Why is the Agreement in the public interest?

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

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

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

V. INDIVIDUAL SETTling PARTY POSITIONS

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

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

27 A. The Company's need for a rate increase in Year One of the multi-year rate plan is

1 driven primarily by capital projects that have already been placed in service and
2 increased pressures on O&M expenditures. The Year Two rate increase is driven
3 by identifiable, long-planned, discrete capital projects that, without rate recovery in
4 Year Two, would put immediate pressure on rates requiring a rate case.

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

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

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

18 A. The Agreement is a compromise of the Settling Parties that provides reasonable
19 values for the Company's revenue requirement, cost of capital, and rate design/rate
20 spread, and it allows NW Natural to focus on operations rather than continuing to
21 expend time and resources on litigation. Additionally, the Agreement provides the
22 Company recovery of the costs for long-planned improvements in our system and
23 facilities. At its core, this rate case sought to recover the costs of investments made

1 on behalf of our customers in our system to continue to provide safe and reliable
2 energy to their homes and businesses. Distribution system improvements located
3 throughout our service territory and the replacement of our large dehydrator the
4 Mist Storage Facility will allow NW Natural to provide service on the coldest days
5 when our customers need our service the most. Additionally, our move to a new
6 operational center at 250 Taylor Street in Portland provided the least-cost, least-
7 risk option for the Company that prioritized the safety of our employees and our
8 customers by finding a seismically resilient building that will remain operational in
9 the event of large-scale earthquake. Likewise, our data center migration project
10 migrated our data centers at our current office and our Sherwood facility to three
11 separate locations, including one east of the Cascades, to ensure that our Company
12 would have the IT&S resources available if there is a large seismic event.

13 Additionally, the Agreement provides for recovery in Year Two of the
14 Company's investment in the first phase of the "Horizon" project, which is a major
15 IT&S initiative to upgrade our technology architecture and involves upgrades to
16 NW Natural's existing ERP software, which functions as the Company's backbone
17 software—managing and integrating all of NW Natural's essential business
18 functions. IT&S investments have shorter depreciable lives compared to other
19 historical investments in the distribution system. Minimizing regulatory lag on
20 these projects is critical to ensuring the Company maintains its financial health and
21 is provided an opportunity to earn a fair return on these investments. Without the
22 ability to capture this project, and other important projects, in rates to recover these
23 investments in the second year of a multi-year rate plan, the Company would

1 experience significant regulatory lag on its recovery of these investments—or need
2 to file another rate case immediately after completing this one. By allowing the
3 Company to include these investments as part of a two-year plan, the Commission
4 will alleviate itself, Commission Staff, the Company, and all other interested parties
5 of the burden imposed by the cycle of filing continuous rate cases.

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

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

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

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

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

23 A. Yes.

B. Statement of Staff (Jason L. Ball)

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

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

5 **Q. Is the overall settlement in the public interest?**

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

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

1 based ratemaking and multiyear rate plans.

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

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

7 As intended by the Commission's used and useful policy statement, the
8 Settlement outlines a review of pro forma additions once they are in service. Only
9 pro forma projects found to meet the used and useful policy statement will be
10 included in Year 2 rates. This agreement goes above and beyond the terms of the
11 Used and Useful Policy Statement, which includes that rates be subject to refund,
12 and creates further protection for customers by creating a 3-million-dollar cap on
13 the Year 2 increase. This cap exists regardless of whether NW Natural places more
14 than that amount in service prior to Year 2 rates going into effect. Under this
15 agreement customers know that the maximum increase in their year two rates will
16 be 3 million, and the increase could potentially be less. In exchange, the Settling
17 Parties agreed not to challenge the current level of indirect offsetting factors already
18 included in the Year 2 rate calculation during the Year 2 review process. This
19 provision provides some assurance to the Company about the indirect offsetting
20 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.

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

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

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

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

20 **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).

1 **might have on the Company’s overall cost of service?**

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

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

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

⁷⁰ *Id.*

⁷¹ LAWS OF 2021, ch. 188, § 1(1).

⁷² *Id.* § 2(1).

1 are only required beginning in 2022.⁷³

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

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

11 A. Yes, it does.

12 **C. Statement of AWEC (Bradley G. Mullins)**

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

14 A. AWEC appreciated that NW Natural filed a case that was relatively straight
15 forward, and largely consistent with the Commission precedent. The first-year
16 revenue requirement was based on a historical period with limited pro forma plant
17 additions, which parties had a reasonable opportunity to review. In addition, rather
18 than making its filing based on an inflated cost of capital, NW Natural proposed a
19 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.”).

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

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

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

D. Statement of TEP (Shawn M. Collins)

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

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

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

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

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

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

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

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

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

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

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

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

20 A. TEP supports requiring annual reports on low-income programs so that
21 stakeholders and the Commission can review the program’s effectiveness at
22 providing funds and services to customers, and the energy burden faced by low-
23 income customers. TEP supports requiring annual reporting on low-income

1 programs for all of Washington’s regulated energy utilities. Northwest Natural is
2 the only regulated energy utility currently without such a requirement.

3 **Q. Please explain TEP’s support for the low-income evaluation study.**

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

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

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

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

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).

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

11 **Q. Does TEP support approval of the Agreement?**

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

16 **Q. Does this conclude your statement?**

17 A. Yes.

VI. CONCLUSION

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

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

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

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

6 A. Yes.