

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

NORTHWEST NATURAL GAS, d/b/a
NW NATURAL,

Respondent.

DOCKETS UG-200994, UG-200995,
UG-200996, and UG-210085
(Consolidated)

ORDER 05

FINAL ORDER APPROVING AND
ADOPTING SETTLEMENT
AGREEMENT

Synopsis: The Washington Utilities and Transportation Commission (Commission) approves and adopts a Full Multi-Party Settlement Agreement (Settlement) as an uncontested resolution of all issues. The Settlement does the following: sets forth revenue requirements for Northwest Natural Gas d/b/a NW Natural (NW Natural or Company) to be recovered through a multi-year rate plan, specifying the overall rate of return; provides a “black-box” Year One agreed-upon revenue requirement as well as certain adjustments used to derive the Year Two agreed-upon revenue requirement; includes a rate mitigation plan spread over two years; and addresses rate design. The Settlement maintains the Company’s Gas Residential Energy Assistance Tariff (GREAT) program and creates an advisory group, sets goals for the Advisory Group, and requires the Company to file annual reports. The Settlement also requires the Company to hire a third party to perform an independent low-income evaluation study. The parties have agreed to, and the Commission approves in this Order, an increase to annual revenues recovered through base rate changes of \$5,000,000 for NW Natural’s Washington customers in Year One and a rate cap of \$3,000,000 for Year Two.

SUMMARY

- 1 **PROCEDURAL HISTORY.** On December 18, 2020, NW Natural filed with the Commission revisions to its currently effective Tariff WN U-6 for natural gas service in Washington. For Year One, NW Natural requested authority to increase annual revenues by \$6.3 million, an approximately 8.0 percent increase to overall base rates. For Year Two, the Company requested authority to increase revenues by \$3.2 million, an approximately 3.7 percent increase to overall base rates.
- 2 Also on December 18, 2020, NW Natural filed with the Commission a Petition for an Accounting Order Authorizing Deferred Accounting for Certain Start-up Costs Associated with a Major Information Technology and Services Project (IT Petition) in Docket UG-200996 and a Petition for Accounting Order for Approval of Depreciation and Amortization of Rates for Investment in Certain Software in Docket UG-200995.
- 3 On January 7, 2021, the Commission entered Order 01 in Docket UG-200994, suspending the tariff revisions. That same day, the Commission also entered Order 02, Protective Order.
- 4 On January 19, 2021, the Commission convened a virtual prehearing conference in Docket UG-200994. The Commission granted unopposed petitions to intervene filed by the Alliance of Western Energy Customers (AWEC) and The Energy Project (TEP). On January 26, 2021, the Commission entered Order 03, Prehearing Conference Order. Among other things, Order 03 set various deadlines for filing testimony and established a date for an evidentiary hearing.
- 5 On February 8, 2021, NW Natural filed a Petition for an Accounting Order Authorizing Deferred Accounting Treatment of Conservation Potential Assessment Costs (Conservation Petition) in Docket UG-210085.
- 6 On May 5, 2021, Commission staff (Staff) filed a Joint Motion to Consolidate Proceedings and Amend the Procedural Schedule (Joint Motion) on behalf of the Company, the Public Counsel Unit of the Attorney General's Office (Public Counsel), AWEC, and TEP (collectively, the Parties). In the Joint Motion, the Parties requested that Dockets UG-200994, UG-200995, UG-200996, and UG-210085 be consolidated to assist the Parties with negotiating a potential settlement that would resolve all four dockets. In light of this progress, the Parties requested agreed changes to the procedural schedule related to deadlines for filing testimony and exhibits. On May 11, 2021, the Commission entered Order 04, which consolidated Dockets UG-200994, UG-200995, UG-200996, and UG-210085 and amended the procedural schedule.

7 On July 27, 2021, the Company filed the Settlement on behalf of NW Natural, Staff, AWEC, and TEP (Settling Parties). Public Counsel neither supports nor opposes the Settlement. The Settling Parties also filed joint testimony in support of the Settlement, and Public Counsel filed testimony in response to the Settlement on July 27, 2021.

8 On August 19, 2021, the Commission convened an evidentiary hearing on the Settlement before Administrative Law Judge Samantha Doyle, Chair David Danner, Commissioner Ann Rendahl, and Commissioner Jay Balasbas.

9 **PARTY REPRESENTATIVES.** Lisa Rackner and Jocelyn Pease, McDowell Rackner & Gibson PC, Portland, Oregon, represent NW Natural. Chad M. Stokes and Tommy A. Brookes, Cable Huston LLP, Portland, Oregon, represent AWEC. Simon J. ffitch, Attorney at Law, Bainbridge Island, Washington, represents TEP. Lisa W. Gafken, Nina Suetake, and Ann Paisner, Assistant Attorneys General, Seattle, Washington, represent Public Counsel. Nash Callaghan, Assistant Attorney General, Lacey, Washington, represents Staff.¹

10 **COMMISSION DETERMINATIONS.** The Commission finds that the rates, terms, and conditions in the Settlement are fair, just, reasonable, and sufficient. We accordingly approve the proposed Settlement in full, without conditions. We also recognize that the terms of the Settlement are non-precedential, and represent negotiated terms of the Settling Parties.

MEMORANDUM

I. SETTLEMENT

11 Commission approval of a settlement agreement is predicated upon the settlement's lawfulness, adequate evidentiary support, and consistency with the public interest. Finding that the Settlement, as whole, meets these requirements, we approve the Settlement in its entirety.

12 We discuss each component of the Settlement below.

¹ In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

A. Multi-Year Rate Plan Revenue Requirements and Effective Dates

13 The Settling Parties agree to a two-year rate plan.

14 **Year One begins on November 1, 2021, and ends on October 31, 2022.** The Parties agree that NW Natural should be authorized to implement a revenue increase for Year One of \$5.0 million, which includes pro forma plant as proposed by NW Natural in direct testimony.² The Settling Parties agree that the portion of the Year One revenue requirement increase attributable to the Year One pro forma plant will remain unspecified, which essentially creates a “black-box” revenue requirement for Year One. The Year One revenue requirement increase is subject to the rate mitigation provisions discussed below.

15 **Year Two of the rate plan begins on November 1, 2022, and ends on October 31, 2023.** The Parties agree that NW Natural should be authorized to implement a revenue requirement increase in Year Two not to exceed \$3.0 million. The revenue requirement increase for Year Two is reduced by mitigation provisions, and is subject to refund. The Year Two revenue requirement includes eight capital additions to rate base that are expected to be placed in-service prior to the rate effective date for Year Two (as detailed in Attachment 1 to the Settlement Agreement). Actual project costs will be subject to the Settling Parties’ novel concept of a “portfolio basis” review. The \$3 million increase also accounts for direct offsetting savings. The eight discrete projects are:

- The Horizon 1 Project
- The Vancouver Resource Center Project (Phase 2)
- White Salmon Reinforcement Project
- SE 1st Street Grading Project (Phase 2)

² The Settlement states that the Year One revenue requirement increase is \$5.0 million. However, page 2, Column C, in Attachment 2 of the Settlement Agreement shows a revenue requirement of approximately \$5.5 million. Further, the approximate \$0.5 million EDIT Amortization Credit in Column E that appears to offset total revenue requirement as shown in Column P is not discussed in the Joint Testimony. The Company explained this discrepancy at hearing, stating that “the actual would be net of that EDIT amount, so it would be the \$5 million. The reason we separate that column out from ratemaking is because it is on a separate adjustment schedule so we can track that through time.” Walker, TR 98:5-15.

- Battle Ground Gate Station Rebuild Project
- Ridgefield Gate Station Rebuild Project
- Mist Well Rework Program 2021
- Mist Corrosion Abatement Project (Phase 4)

16 **DECISION.** We find that the overall revenue requirement increases proposed by the Settlement are reasonable, both in light of the parties' agreement and considering the range of possible outcomes. Although the parties propose a "black box" revenue requirement increase for Year One and neither explain how the agreed-upon adjustments result in the proposed revenue increase nor define the components comprising cost of capital, the Settlement provides detailed descriptions of pro forma plant and specifies the overall rate of return underlying the proposed revenue requirement increases. Additionally, both Year One and Year Two are reduced by the Settlement's mitigation provisions, and Year Two is subject to refund. These factors, addressed in sections B and C below, provide sufficient reassurance that the overall proposed revenue requirement increase is both reasonable and adequately supported. Accordingly, we conclude that the revenue requirement proposed by the Settlement will result in rates that are fair, just, reasonable, and sufficient.

B. Year Two Review and Reconciliation Process

17 Under the Settlement, the Settling Parties agree that the Year Two review and reconciliation (*i.e.*, retrospective review) process will be limited to a review of the eight capital projects listed above and will not include consideration of any new "indirect" offsetting factors. All other revenue requirement components shall remain as outlined in Year One. The Year Two Pro Forma comprehensive filing must be filed no later than February 28, 2023. The Settlement requires all Settling Parties and Public Counsel's recommendations concerning the Year Two Pro Forma comprehensive filing to be provided to the Commission within 4 months of the comprehensive filing, or by June 28, 2023.

18 When the final costs of Year Two projects are known and measurable, NW Natural will file and serve to the parties evidence (either directly or by reference to previously filed evidence) sufficient to demonstrate that each project is used and useful. The filing will include actual project costs and demonstrate prudence, 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; and
- f) Updated information on offsetting factors presented in this case.

19 Non-Company parties will have the opportunity to review the evidence, conduct discovery, and submit responses stating they accept or contest the comprehensive filing.

20 The Settling Parties agree to a Year Two revenue increase cap of \$3 million, but NW Natural may seek recovery of project costs that exceed the revenue cap in a subsequent rate proceeding.

21 The Settlement's retrospective review process provides for a "discovery-like process" where the non-Company parties will receive and review NW Natural's reports through data requests. NW Natural will file its comprehensive filing no later than February 28, 2023. Non-Company parties will file responses within a four-month window, and the Company will file a petition pursuant to WAC 480-07-875 requesting the Commission amend this Order by June 28, 2023. The petition would be filed and served on the non-Company parties, and the non-Company parties would have 20 days to file a response unless the Commission establishes a different deadline by notice. At hearing, the Settling Parties agreed that the compliance filing process outlined in WAC 480-07-880 would be appropriate if no party disputes the Company's comprehensive filing.³

22 **DECISION.** The proposed retrospective review process is reasonable in light of the parties' agreement and the Year Two revenue increase cap. We are also satisfied that the process is subject to verifying actual costs, actual in-service dates, and a prudency review. We approve the process with the understanding that, no later than February 28, 2023, the Company's comprehensive filing will be made consistent with the compliance filing process outlined in WAC 480-07-880. If no party disputes the filing, Staff will file a letter by June 28, 2023. The Commission, in turn, will file a letter to this Docket

³ Ball, TR 71:8-16; Kravitz, TR 71:15-16; Mullins, TR 71:19.

accepting the compliance filing. If disputes arise amongst the parties, the Company may file a petition and utilize the process set out in WAC 480-07-875 as proposed by the Settlement.⁴

23 Although we approve the Year Two retrospective review process proposed by the Settlement, we disagree with the Settling Parties' assertion that this process is consistent with the Commission's guidance in its Used and Useful Policy Statement (Policy Statement)⁵ for the reasons discussed below.

24 First, the Settlement introduces the novel concept of using a "portfolio basis" for the retrospective review of Year Two capital additions.⁶ The Settling Parties describe the portfolio basis for assessing the total costs of provisional capital as follows: "[as] one project's costs increase and another project's costs decrease, these amounts will be added together when determining whether the \$3 million cap is reached. Through this approach, prudently incurred costs above the currently estimated amounts will be accepted, so long as the total revenue requirement increase for Year Two does not exceed the \$3 million cap."⁷ Accordingly, the portfolio basis approach allows the Company to recover costs that would otherwise be considered "under-recovered" for a project that exceeds its estimated costs provided those under-recovered costs are offset by other projects that incur costs lower than originally estimated.

25 The Policy Statement does not contemplate this approach. Instead, it provides that "the Commission will not allow companies to assess surcharges for amounts claimed to be

⁴ "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." *Id.*

⁵ *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Policy Statement on Property that Becomes Used and Useful, Docket U-190531 (Jan. 31, 2020) (hereinafter, Policy Statement). At hearing, Staff testified that this "will probably be the last case where we use the Used and Useful Policy Statement, because the next ones will be subject to [the] multiyear rate plan law that was written." (Ball, TR 85:10-13). Staff is incorrect. RCW 80.04.250, which forms the basis for the Policy Statement, is neither superseded nor displaced by RCW 80.28.425, which governs multiyear rate plans. Rather, the requirements set out in RCW 80.28.425 are consistent and compatible with RCW 80.04.250. Accordingly, the Policy Statement continues to provide relevant guidance for regulated utilities and non-company parties that propose recovery of rate effective period property in a multiyear rate plan where rates approved for years two through four are provisional and subject to refund.

⁶ Settlement ¶ 21; Exh. JT-1Tr at 25:1-12.

⁷ Joint Settlement Testimony, Exh. JT-1 at 25:7-12.

under-recovered during the rate-effective period. If identified investment costs exceed what the regulated company is collecting from customers based on its proposed, estimated, or projected costs, the Company may file an accounting petition.”⁸ Although the Settlement would not authorize the Company to assess a surcharge for under-recovered amounts, it allows NW Natural to circumvent the requirement to file an accounting petition to recover amounts that exceed estimated costs. For that reason, the portfolio basis concept is not strictly consistent with the Policy Statement.

26 We also recognize that the Company may reach the \$3 million cap prior to completing all eight projects identified in the Settlement. For example, if the Company incurs \$3 million in costs but completes only six projects, any “under-recovered” portions of those projects would in, fact, be recovered from customers without being subject to the threshold requirements for filing an accounting petition. In that scenario, the parties would review the costs that exceed \$3 million for prudence but NW Natural would be required to wait until a future proceeding to seek recovery of those costs.

27 Despite these concerns, we conclude that using the portfolio basis is reasonable considering the specific facts presented in this case. Because each of the proposed projects is in the late stages of planning, the risk that the total portfolio revenue requirement will exceed the estimated total of \$3.3 million is low. We are also satisfied that the Settlement does not permit the Company to assess a surcharge for under-recovered amounts, and that customers will receive a refund if the total costs of all eight projects is less than \$3 million. By way of guidance to the parties, we note that our decision to accept the use of this novel concept in this case is non-precedential.

28 Second, the Settlement is not entirely consistent with Policy Statement’s guidance regarding offsetting factors. The Settlement proposes to limit Year Two offsetting factors to “direct” factors related to the Company’s investments.⁹ The Policy Statement, which requires that utilities match costs to offsetting factors when property is placed in service, does not distinguish between direct and indirect offsetting factors. Despite this inconsistency, we are comfortable accepting this Settlement term in light of the specific facts presented here. Specifically, the eight provisional projects are well-defined and discrete, thus making their offsetting factors easier to identify.¹⁰ The Settlement also

⁸ Policy Statement ¶ 45.

⁹ Settlement ¶ 23.

¹⁰ We further note that the Policy Statement provides that any rate-effective period investments later found not to be adequately matched to offsetting factors must be refunded to customers. In

preserves the non-Company parties' right to evaluate the projects and to account for newly discovered or materialized direct offsetting factors to the pro forma projects.¹¹

29 We observe these inconsistencies for the purpose of providing guidance to the parties, but nevertheless approve these Settlement terms because they are reasonable in this case. We further recognize that our decision to approve the Settlement, which reflects a compromise of the Settling Parties' respective positions, is not precedential.

C. Cost of Capital

30 The Settling Parties agree to an overall authorized rate of return (ROR) of 6.814 percent, but do not specify the inputs used to calculate the ROR. As such, the Settling Parties do not disclose the return on equity, cost of debt, or capital structure used to arrive at the agreed outcome.

31 **DECISION.** We find that the ROR proposed by the Settlement is reasonable and supported by the record. In its initial filing, NW Natural requested a ROR of 6.913 percent based on a ROE of 9.4 percent and a capital structure comprised of 49 percent equity and 51 percent debt. The Settlement reflects an agreed-upon ROR of 6.814 percent, which is both lower than the amount originally requested and lower than the rates of return the Commission has adopted recently for other regulated natural gas utilities.¹² In light of these factors, we conclude that the Settlement's proposed ROR and its underlying inputs, even though not disclosed, fall within a reasonable range, are

light of this guidance, the Company must ensure its inclusion of "direct" offsetting factors is robust and complete. The Commission will carefully review the offsetting factors identified in the Company's comprehensive filing to ensure this standard is met.

¹¹ *Id.*

¹² In May 2021, the Commission approved an all-party settlement establishing a capital structure of 49.1 percent equity and 50.9 percent debt, an ROE of 9.4 percent, and an ROR of 6.95 percent for Cascade Natural Gas Corporation. *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corp.*, Docket UG-200568, Order 05, ¶ 15 (May 18, 2021). In September 2021, the Commission authorized a capital structure of 48.5 percent equity and 51.5 percent debt, with an ROE of 9.4 percent and an ROR of 7.12 percent, for Avista Corporation. *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-200900, UG-200901 and, UE-200894, Order 08/05, ¶¶ 108-14 (September 27, 2021). Similarly, for Puget Sound Energy, the Commission authorized a 48.5 percent equity and 51.5 percent debt capital structure, and 9.4 percent ROE with an ROR of 7.39 percent, in July 2020. *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529 and UG-190530, Order 08, ¶¶ 106-8 (July 8, 2020).

consistent with the public interest, and will result in rates that are fair, just, reasonable, and sufficient.

D. Rate Mitigation

32 The Settlement provides that the Company's Year One rate mitigation proposals (suspending its historical Energy Efficiency Deferral tariff and crediting Truck Lot proceeds) totaling an estimated amount of \$2.3 million will be spread equally over both years of the rate plan.¹³ The Year Two rate mitigation will also include a credit to customers from the net gain of the sale of the Astoria Resource Center property in the amount of \$43,000. These amounts will be spread to customers on an equal percent of margin basis.

33 **DECISION.** The Energy Efficiency Deferral tariff rate mitigation agreed to by the Settling Parties, which effectively delays amortization for two years by suspending the operation of the tariff, is a reasonable strategy to reduce the overall impact of the rate increase authorized by this Order on the Company's ratepayers. The additional mitigation measure in Year Two, although minor, further reduces rate volatility. The Settlement's proposal to spread the mitigation amounts to customers on an equal percent of margin basis is also reasonable because it maintains the status quo until the Company moves its customer classes closer to parity. We appreciate the Settling Parties' efforts to reduce the effect of the rate increase on the Company's customers as many people continue to experience the economic impacts of the COVID-19 pandemic.

E. CPA Deferral

34 The Settling Parties agree that NW Natural's Petition for an Accounting Order Authorizing Deferred Accounting Treatment of the CPA Costs in Docket UG-210085 should be approved by the Commission and that the actual costs included in the deferral account (estimated at \$148,000) should be amortized over one year through a separate, temporary schedule in Year One.

¹³ *In re Nw. Nat. Gas Co. dba NW Nat. Schedule 215: Adjustment to Rates for Energy Efficiency Service and Programs*, Docket UG-200796. 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).

35 **DECISION.** We approve the deferred accounting treatment proposed in the Settlement but recognize that these deferred costs are not consistent with some of the Commission's long-standing requirements that costs be extraordinary and material – *i.e.*, not normal operating costs – to be eligible for deferral. Although the costs at issue here reflect normal operating costs and are neither extraordinary nor material, we accept the negotiated resolution of this accounting petition because it reflects a reasonable compromise of the Settling Parties' positions. By way of guidance to the parties, we note that our approval of this Settlement term is not precedential.

F. Depreciation and Amortization of Rates for Investment of Certain Software

36 The Settling Parties agree that NW Natural's Petition for an Order for Approval of Depreciation and Amortization of Rates for Investment of Certain Software in Docket UG-200995 should be granted. The Company seeks authorization to use a 10-year amortization period for its capitalized cloud-based software license and implementation costs. NW Natural asserts that this period reflects the useful life of the first phase of the Company's Horizon project, which is an upcoming seven-year initiative to upgrade NW Natural's technology architecture. To maintain consistent depreciation rates, the Company filed a petition with the Public Utility Commission of Oregon to use a 10-year life for its Horizon project cloud-based software.

37 **DECISION.** We grant the accounting petition as proposed by the Settlement and described above. The depreciation and amortization terms, which reflect a compromise of the Settling Parties' positions, are reasonable for short-lived assets such as cloud-based software. By way of guidance to the parties, we note that our decision as it relates to capitalized costs is non-precedential.¹⁴

¹⁴ We observe and note specific implementation costs that can be capitalized under Financial Accounting Standards Board (FASB) Accounting Standards Codification 340-50. Costs that qualify to be capitalized during the implementation phase (which for the purposes of this Order includes the FASB's guidance for the preliminary and application development phases) include: (1) internal and external costs to develop or purchase internal-use software, respectively (for internal development these costs directly relate to actual software development); and specific software development costs related to data conversion (all manual data conversion costs should be expensed).

G. Major Information and Technology and Services Project Deferral of Start-up Costs

38 The Settling Parties agree that NW Natural's Petition for an Accounting Order Authorizing Deferred Accounting Treatment of Certain Start-up Costs Associated with a Major Information Technology and Services Project in Docket UG-200996 should be granted. The Company seeks authorization for deferred accounting treatment of approximately \$0.8 million Washington allocated (\$8.4 million system-wide) operations and maintenance (O&M) start-up costs associated with developing and implementing the first phase of a major information technology and services (IT&S) Horizon project.

39 **DECISION.** We approve the deferred accounting treatment proposed in the Settlement, as described above. We also recognize that these deferred costs are not consistent with the Commission's long-standing requirements that deferred costs be extraordinary and material. These costs do not, however, reflect normal operating costs going forward. We accept the negotiated resolution of this accounting petition as a reasonable compromise of the Settling Parties' positions. By way of guidance to the parties, we note that our approval of this Settlement term is not precedential.

H. Rate Spread

40 In its initial filing, NW Natural proposed to spread Year One and Year Two annual revenue increases on an equal percent of margin basis. The Company proposed maintaining its current rate spread until it completes a load study as required by WAC 480-85-050(1).¹⁵ The Settling Parties do not provide details related to the proposed rate design. Instead, the Settlement refers to its Attachment 3 as being a fair and reasonable method of allocating Year One and Year Two revenue requirements.¹⁶ Similarly, the Settlement provides the percent-of-margin for each rate schedule without disclosing the methodology employed to spread rates. As noted above, however, the Settlement proposes that the rate mitigation measures, taken together, will be spread on an equal percent of margin basis.¹⁷

41 **DECISION.** The Settling Parties agreed to a rate spread allocation as set forth in Attachment 3 to the Settlement without providing a supporting narrative. The rate spread

¹⁵ Exh. JT-1 at 29:12-17 and Wyman, Exh. RJW-1T at 41:2-11 and at 41:16-19.

¹⁶ Exh. JT-1 at 30:5-8 and Settlement.

¹⁷ Exh. JT-1T at 28:4-6.

for the revenue increases are, effectively, a “black box” settlement with the exception of the rate spread proposed for the rate mitigations. While the Commission would benefit from a supporting narrative, we accept the Settlement’s proposed rate spread as a reasonable compromise of the Settling Parties’ positions for the purposes of this Order.

42 We also recognize that the agreed rate spread does not move the Company’s customer classes closer to parity.¹⁸ Although the Commission prefers to see utilities taking steps to move towards a reasonable range of parity among their customer classes, we recognize here that NW Natural must first conduct a load study to inform any changes to its cost of service, and that any resulting increases must be implemented gradually consistent with Commission rules.¹⁹

I. Low-Income Bill Assistance Program

43 The Settlement maintains the Company’s Gas Residential Energy Assistance Tariff (GREAT) Program and establishes an Advisory Group for the program.²⁰ The Advisory Group, comprising key stakeholders, will meet at least twice a year.²¹ The Settlement sets specific goals for the Advisory Group, including keeping customers connected to natural gas service, providing assistance to more customers than are currently served, lowering the energy burden of GREAT Program participants, and collecting data necessary to assess the GREAT Program’s effectiveness and inform ongoing policy discussions.

44 The Settlement further provides that the Company will file annual reports on the status of the GREAT Program on February 1 of each year beginning in 2022. The draft reports will be provided to the GREAT Advisory Group at least 60 days prior to the due date. At a minimum, annual reports must include:

- 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

¹⁸ Exh. RJW-1T at 41:14-15.

¹⁹ WAC 480-85-010(2).

²⁰ Settlement ¶ 28-32.

²¹ We encourage the Company and Settling Parties to use their best efforts to ensure participation by one or more organizations representing vulnerable populations.

its 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; and
- h) Any GREAT Program changes in the last program year and a forward-looking program outlook for the current program year.

45 NW Natural will work in consultation with the Advisory Group to produce a low-income evaluation study to assess the need for low-income assistance for the Company's Washington customers, including low-income weatherization, and to identify ways to improve the GREAT Program to better align with the goals of the Advisory Group. NW Natural, in consultation with the Advisory Group, will hire a third party to perform the independent low-income evaluation study.²² The Company agrees to not seek recovery of the costs of the low-income evaluation study from customers.²³

46 **DECISION.** The Advisory Group and NW Natural's low-income evaluation study both align with the goal of increasing equitable service. The Settlement maintains the Company's important low-income bill assistance program and includes two new terms:

²² Along with the low-income evaluation study and consultation from the Advisory Group, we recommend the Company take steps to address the following equity issues: (1) assess language access for current and potential needs; (2) identify service territory marginalized and underserved communities' needs and plans to better serve these needs; (3) ensure equitable outcomes and benefit distribution; (4) address the relationship between low-income customers who are homeowners and those who are renters, and any resulting disparities, and; (5) address the ability of low-income ratepayers to change their use behaviors based on tariff pricing signals.

²³ Settlement ¶ 37.

(1) the Advisory Group will review the GREAT Program structure and mechanisms to expand access to bill assistance, and (2) the Advisory Group will annually review the sufficiency of funding levels for the GREAT Program and suggest any necessary adjustments.²⁴ The Company has not yet implemented the Advisory Group due to the ongoing COVID-19 pandemic and other factors, but commits itself to the program and agrees to increase its accountability by submitting to a third party evaluation.²⁵ We thus find that the Settlement’s proposed changes to NW Natural’s GREAT Program are in the public interest and approve them.

47 We have reviewed the Settlement and supporting evidence and conclude that the resulting rates, terms, and conditions are fair, just, reasonable, and sufficient. The Settlement terms are lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the Commission. We therefore approve the Settlement without conditions.

FINDINGS OF FACT

48 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

- 49 (1) The Commission is an agency of the State of Washington vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including natural gas companies.
- 50 (2) NW Natural is a “public service company” and a “natural gas company” as these terms are defined in RCW 80.04.010 and these terms are otherwise used in Title 80 RCW. NW Natural is engaged in Washington State in the business of supplying utility services and commodities to the public for compensation.
- 51 (3) On December 18, 2020, NW Natural filed with the Commission revisions to its currently effective Tariff WN U-6 for natural gas service provided in Washington. NW Natural for Year One, requested authority to increase annual revenues by \$6.3 million, *i.e.*, an 8.0 percent increase to overall base rates. NW Natural for

²⁴ Kravitz *et al.*, JT-1T at 46:2-13.

²⁵ *Id.* at 34:12-23.

Year Two, requested authority to increase annual revenues by \$3.2 million, *i.e.*, a 3.7 percent increase to overall base rates.

- 52 (4) NW Natural, Staff, AWEC, and TEP entered into a Multi-Party Settlement to resolve all issues in this proceeding, which they filed with the Commission on July 27, 2020.
- 53 (5) Public Counsel neither supports nor opposes the Multi-Party Settlement.

CONCLUSIONS OF LAW

54 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law, incorporating by reference the pertinent portions of the preceding detailed conclusions:

- 55 (1) The Commission has jurisdiction over NW Natural, the other parties, and the subject matter of this proceeding.
- 56 (2) The Commission has an independent obligation to determine whether the Settlement is lawful, supported by the evidence, and consistent with the public interest.
- 57 (3) The rates, terms, and conditions in the Settlement are fair, just, reasonable, and sufficient.
- 58 (4) The Commission should approve the Settlement without condition.

ORDER

THE COMMISSION ORDERS:

- 59 (1) The Commission approves the Multi-Party Settlement Agreement, which is attached as Exhibit A to, and incorporated into, this Order, and adopts the Settlement Agreement as its final resolution of the issues in these consolidated dockets.
- 60 (2) The Commission rejects the revisions to Northwest Natural Gas d/b/a NW Natural's Tariff WN U-6 filed on December 18, 2020. Northwest Natural Gas d/b/a NW Natural must file tariff sheets in compliance with this Order no later than five business days prior to the tariff sheets stated effective date.

- 61 (3) The Commission retains jurisdiction to enforce the terms of this Order and delegates to the Executive Director and Secretary the authority to confirm compliance with this Order.

Dated at Lacey, Washington, and effective October 21, 2021.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.

APPENDIX A
Settlement Agreement