BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

NORTHWEST NATURAL GAS COMPANY

Direct Testimony of Kyle T. Walker

YEAR TWO REVENUE REQUIREMENT

Exh. KTW-10T

December 2, 2022

DIRECT TESTIMONY OF KYLE T. WALKER

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I. INTRODUCTION AND SUMMARY

Q. Please state your name, address, and position with Northwest Natural Gas Company.

A. My name is Kyle T. Walker. My business address is 250 S.W. Taylor Street, Portland, Oregon 97204. My current position is Rates/Regulatory Manager in the Rates and Regulatory Affairs Department of Northwest Natural Gas Company ("NW Natural" or the "Company").

Q. Please state your educational background and experience.

A. I received a Bachelor of Science Degree in Business Administration with an emphasis in Finance from Oregon State University in 2005 and a Master of Business Administration from Willamette University in 2010. In addition, I received an accounting certificate from the University of Washington, and I am a licensed certified public accountant in the State of Oregon. Prior to my employment with NW Natural, I held positions at the Bonneville Power Administration ("BPA"), including Risk Analyst, Derivative Accountant, Internal Auditor and Finance Analyst. Prior to BPA, I was a Credit Manager for Wells Fargo. In early 2015, I started at NW Natural as a Rates/Regulatory Analyst and was later promoted to Manager. In my current role, I am responsible for regulatory reporting, revenue requirement, ratemaking and other regulatory duties as assigned.

Q. Have you previously filed testimony in Docket UG-200994?

A. Yes. I filed Direct Testimony as Exhibit KTW-1T and its associated Exhibits KTW-2 through KTW-9 as part of the Company's initial filing in its rate case Docket UG-200994, made on December 18, 2020 ("Initial Filing").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the revenue requirement increase for "Year Two" (i.e., November 1, 2022, through October 31, 2023) shown in Exhibit KTW-11, in compliance with the Full Multi-Party Settlement Agreement ("Agreement"), filed with the Washington Utilities and Transportation Commission ("Commission") on July 27, 2021, and approved by the Commission in Order 05 issued in Dockets UG-200994, UG-200995, UG-200996 and UG-210085 on October 21, 2021 ("Order 05"). The revenue requirement increase for Year Two incorporates a series of discrete capital projects (netted against offsetting factors), incremental ongoing operation and maintenance ("O&M") costs associated with the Horizon 1 Project (netted against offsetting factors), retirement of the previous SAP system, deferred one-time implementation costs associated with the Horizon 1 Project and one-half of prospective Conservation Potential Assessment ("CPA") costs, and also reflects the impact of temporary rate impact mitigation provisions that are not shown in Exhibit KTW-11. The Year Two revenue requirement increase is provided in this filing for the purpose of the Year Two review and reconciliation process described in the Agreement and summarized next in my testimony.

II. YEAR TWO REVIEW AND RECONCILIATION PROCESS

Q. Please describe the Year Two review and reconciliation process described in the Agreement.

A. Under Section III.B of the Agreement approved by Commission Order 05, a Year Two review and reconciliation process is required to be conducted by the parties related to a discrete component of the Agreement. In particular, the process is limited to a review of the eight capital projects described in the Direct Testimony of Jim R. Downing (Exh. JRD-3T), Wayne K. Pipes (WKP-6T) and Daniel B. Kizer (Exh. DBK-1T), and related costs. All other revenue requirement components of the Agreement approved by Commission Order 05 are to remain as outlined in Year One of the Agreement. Our pieces of testimony and related exhibits comprise the Year Two Pro Forma Filing that is required by paragraph 15 of the Agreement to be made no later than February 28, 2023. The Company is making this filing now because the final costs for the eight capital projects are known and measurable, as required by paragraph 14 of the Agreement.

Q. Now that the Company has made its Year Two Pro Forma Filing, what are the next steps?

A. Paragraphs 17 through 19 of the Agreement approved by Commission Order 05 address the next steps. The non-Company parties to this docket, including the Settling Parties[1] and Public Counsel ("the non-Company Parties") have the opportunity to review the evidence filed by the Company and to conduct discovery. The interested non-Company Parties are required to complete their review and discovery no later than four months after the Company's Year Two Pro Forma Filing, or April 2, 2023, and then each non-Company Party may submit to this docket a response notifying the Commission whether the final reported costs are accepted or contested by that party. The non-Company Parties reserve the right to evaluate the projects and to account for newly discovered or materialized direct offsetting factors to the pro forma capital projects.

[1] The Settling Parties are the Company, Commission Staff, Alliance of Western Energy Consumers, and The Energy Project.

Offsetting factors considered in this context are limited to offsets that might occur directly as a result of NW Natural's investment in the projects and do not include offsets that do not directly result from the investment in the projects. However, the Settling Parties agree that the revenue growth and direct retirements of plant offsetting factors listed in paragraph 12 of the Agreement are accepted as estimates and will not be contested by the Settling Parties.

After the non-Company Parties submit their responses to the Commission, NW Natural will file a petition to amend the final order in this docket in accordance with WAC 480-07-875. The petition to amend the final order will indicate whether the parties agree to the proposed rate change or if a dispute exists that would require further process under WAC 480-07-875. The non-Company Parties then will have 20 days to file a response, unless the Commission establishes a different deadline by notice. If there is no dispute, the petition will specify any changes to Year Two rates based on updated information or explain that no changes to Year Two rates are necessary. Year Two rates went into effect on November 1, 2022,[2] but the Year Two rate amounts are subject to refund until the review of these pro forma projects is complete and accepted by the Commission through an amended order.

III. <u>YEAR TWO REVENUE REQUIREMENT INCREASE</u>

Q. What is the Year Two revenue requirement increase?

A. As shown in Exhibit KTW-11, the actual revenue requirement increase for Year Two is $3.93 million. In accordance with the Order 05, the Settling Parties agreed that the

[2] *See* Dockets UG-200994 *et al.*, Staff Compliance Letter (dated October 27, 2022) and Compliance Acknowledgement Letter Allowing Tariff to Go into Effect (dated October 31, 2022).

revenue requirement increase for Year Two is to be capped at $3.0 million ("Year Two Rate Cap"), and then the Company included the temporary rate impact mitigation measures described later in my testimony, resulting in the total Year Two revenue increase of $2.80 million. I now will demonstrate that the amounts and calculations in Exh. KTW-11 comply with Commission Order 05.

Q. What Year Two revenue requirement provisions did the Commission authorize in Order 05?

A. Paragraph 10 of the Agreement approved by Commission Order 05 authorized NW Natural to implement a revenue requirement increase in Year Two not to exceed the $3.0 million Year Two Rate Cap, with the Company having the right to seek recovery of prudently incurred project costs that exceed the $3.0 million Year Two Rate Cap in a subsequent rate proceeding. The Year Two revenue requirement increase shown in Exhibit KTW-11 includes eight capital additions to rate base that were expected to be placed in-service prior to the November 1, 2022 rate effective date for Year Two (as detailed in Attachment 1 to the Agreement), incremental ongoing O&M costs associated with the Horizon 1 Project as described in Mr. Downing's Exh. JRD-3T (netted against offsetting factors), retirement of the previous SAP system, deferred one-time start-up and implementation costs associated with the Horizon 1 Project and one-half of prospective CPA costs. The revenue requirement increase for Year Two then is required to be reduced by certain temporary rate impact mitigation measures, and is subject to refund. The eight discrete Year Two capital projects in the Agreement are described in the Direct Testimony of Jim R. Downing (Exh. JRD-3T), Wayne K. Pipes (WKP-6T) and Daniel B. Kizer (Exh. DBK-1T). Their three pieces of Direct

Testimony, in accordance with paragraph 14 of the Agreement approved by Commission Order 05, present evidence sufficient to demonstrate the prudence of the used and useful Year Two capital projects listed in paragraph 10 of the Agreement.

Q. How does Exhibit KTW-11 analyze the eight discrete Year Two capital projects?

A. Exhibit KTW-11 analyzes the eight discrete Year Two capital projects on a portfolio basis according to actual costs incurred, net of accumulated depreciation, for those projects. As stated in paragraph 20 of the Agreement approved by Commission Order 05, actual costs for projects prudently incurred that are above or below their estimated amounts (as shown in Attachment 1 to the Agreement) will be accepted provided that on a portfolio basis the rate increase does not exceed the $3.0 million Year Two Rate Cap. In the one instance in which a project listed in Attachment 1 to the Agreement was not placed in-service by November 1, 2022 (i.e., the SE 1st Street Grading Project (Phase 2), discussed in Mr. Kizer's Exh. DBK-1T), the cost for that project has been removed from the portfolio of projects included in Year Two and has not been included in Year Two rates, as required by paragraph 22 of the Agreement. The $3.0 million Year Two Rate Cap has not been reduced as a result of that project not being placed in-service by November 1, 2022, as authorized by paragraph 22 of the Agreement.

Q. Earlier, you stated that the Year Two revenue requirement accounts for offsetting factors. What are those offsetting factors?

A. Paragraph 12 of the Agreement approved by Commission Order 05 states that the $3.0 million revenue requirement increase in Year Two accounts for the following offsetting factors:

a. Depreciation reserve adjustments for all new projects (i.e., net plant);

b. O&M savings (such as avoided additional costs and reduced O&M expenses associated with the Horizon 1 Project);

c. Revenue growth; and

d. Rate-year plant retirements directly associated with the Year Two projects (Attachment 1 to the Agreement).

Exhibit KTW-11 includes these four types of offsetting factors.

Q. You also stated earlier that the revenue requirement increase for Year Two has been reduced by temporary rate impact mitigation measures. Please describe those provisions.

A. In accordance with paragraph 25 of the Agreement approved by Commission Order 05, the revenue requirement increase for Year Two has been reduced by the further suspension of the Company's Energy Efficiency Deferral tariff and credit of Truck Lot proceeds from "Year One" (i.e., November 1, 2021 through October 31, 2022), and by the credit to customers from the net gain from selling the Astoria Resource Center property. The dollar impact of these temporary rate impact mitigation provisions has been spread to customers on an equal percent of margin basis, and have been applied after the revenue requirement increase provided in paragraph 10 of the Agreement has been applied to the rate schedules. All rate mitigation measures will conclude at the end of Year Two (i.e., October 31, 2023). The Year Two rates that went into effect on November 1, 2022, included the application of these temporary rate impact mitigation measures.

Q. In addition to applying the temporary rate impact mitigation measures, did the Company take any other related action before making this Year Two Pro Forma Filing?

A. Yes. In light of this Year Two revenue requirement increase and the Company's Purchased Gas Adjustment increase both effective November 1, 2022, NW Natural filed a proposal in Advice No. 22-08, Docket UG-220734, to mitigate the combined bill impact and help residential customers by embedding a temporary bill credit in residential customer rates from November 1, 2022 through March 31, 2023. The Commission allowed that proposal to go into effect by operation of law effective November 1, 2022.

IV. CONCLUSION

Q. Please summarize the results of your analysis and proposed revenue increases for Year Two, effective November 1, 2022.

A. Based on the actual costs incurred for the eight projects, the first-year amortization of the Horizon 1 start-up and implementation costs, incremental ongoing O&M related to project Horizon 1, retirement of the previous SAP system, and one-half of the CPA, the Year Two revenue requirement is $3.93 million. However, the Settlement Agreement reached with the Settling Parties and approved in the Commission's Final Order 05 calls for a cap to the Year Two revenue requirement of $3.0 million. The Company recognizes the Year Two revenue is subject to refund until the Commission deems these costs prudent with fair, reasonable and just rates. The temporary rate impact mitigation measures were also included in rates effective November 1, 2022 for one year to help reduce customer rate impacts, and a temporary bill credit for residential customers also went into effect that same day.

Q. Does this conclude your Direct Testimony?

A. Yes.

V. LIST OF EXHIBITS