

**Exh. JT-1T
Docket UG-181053**

**Witnesses: Zachary D. Kravitz
Kristen Hillstead
Sarah Laycock
Bradley G. Mullins
Shawn M. Collins**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**NORTHWEST NATURAL GAS
CORPORATION,**

Respondent.

DOCKET UG-181053

JOINT TESTIMONY OF

**Zachary D. Kravitz
Kristen Hillstead
Sarah Laycock
Bradley G. Mullins
Shawn M. Collins**

In Support of All-Party Joint Settlement Agreement

June 6, 2019

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	BACKGROUND	8
III.	ELEMENTS OF THE AGREEMENT	10
A.	Revenue Increase and Effective Date	10
B.	Cost of Capital	11
C.	Miscellaneous Adjustments	11
D.	Revenue and Gas Costs.....	12
E.	Bonuses	12
F.	Payroll.....	12
G.	Miscellaneous O&M Expense Adjustment.....	12
H.	Allocation Factors	13
I.	Post-Test Year Plant Additions.....	13
J.	Non-Plant EDIT	14
K.	Rate Design/Rate Spread	14
L.	State Allocation of Environmental Remediation	14
M.	Treatment of Historical Environmental Remediation Costs.....	15
N.	Environmental Cost Recovery Mechanism	16
O.	Tax Issues Related to the Tax Cuts and Jobs Act	20
P.	Energy Conservation.....	23
Q.	ISWC Accounting Methodology	26
R.	Special Contract Feasibility	27
S.	Interruptible Usage.....	27
T.	Low Income Bill Assistance Program	28
U.	Discovery Process	29

IV. THE AGREEMENT SATISFIES THE PARTIES’ INTERESTS AND IS CONSISTENT WITH THE PUBLIC INTEREST.....29

A. Statement of NW Natural (Zachary D. Kravitz).....30

B. Statement of Commission Staff (Kristen Hillstead)32

C. Statement of Public Counsel (Sarah Laycock)51

D. Statement of AWEC (Bradley G. Mullins).....58

E. Statement of The Energy Project (Shawn M. Collins)59

V. CONCLUSION.....64

LIST OF EXHIBITS

Exh. JT-2 Excerpt of NW Natural Response to UTC Staff Data Request No. 7

I. INTRODUCTION

1 **Q. What is the purpose of this prefiled Joint Testimony?**

2 A. This prefiled Joint Testimony (“Joint Testimony”) recommends that the
3 Washington Utilities and Transportation Commission (“Commission” or) approve
4 the All-Party Joint Settlement Agreement (“Agreement” or “Settlement”) filed on
5 May 23, 2019, in this case among Northwest Natural Gas Corporation (“NW
6 Natural” or the “Company”), Staff of the Washington Utilities and Transportation
7 Commission (“Staff”), the Public Counsel Unit of the Washington State Office of
8 the Attorney General (“Public Counsel”), the Alliance of Western Energy
9 Consumers (“AWEC”), and The Energy Project (“TEP”) (individually, “Party,”
10 and collectively, “Parties”). The Agreement resolves most, but not all, issues in this
11 docket, and is supported by all Parties to this docket. Accordingly, the Agreement
12 is a “partial settlement” pursuant to WAC 480-07-730(2). The Agreement is the
13 embodiment and the culmination of a significant expenditure of time and effort by
14 the Parties, and all Parties believe that approval of the Agreement is consistent with
15 the public interest. The purpose of this Joint Testimony is to present the common
16 recommendations of the Parties and to request that the Commission approve the
17 Agreement in its entirety and without condition.

18 **Q. Please state your names, titles, and the party you represent in this matter.**

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

- 20
- 21 • Zachary D. Kravitz, Director, Rates & Regulatory Affairs, NW Natural
 - 22 • Kristen Hillstead, Regulatory Analyst, Staff
 - 23 • Sarah Laycock, Regulatory Analyst, Public Counsel
 - 24 • Bradley G. Mullins, Consultant, AWEC
 - Shawn M. Collins, Director, TEP

1 **Q. Mr. Kravitz, please provide information pertaining to your educational**
2 **background and professional experience.**

3 A. My name is Zachary D. Kravitz. I am employed by NW Natural as the Director of
4 Rates and Regulatory Affairs, and I am responsible for the management of all
5 economic regulatory functions at the Company. Please see Exhibit ZDK-1CT filed
6 on January 31, 2018 (and redesignated as non-confidential on April 22, 2019), for
7 testimony describing my education and relevant experience.

8 **Q. Ms. Hillstead, please provide information pertaining to your educational**
9 **background and professional experience.**

10 A. My name is Kristen Hillstead. I am a Regulatory Analyst employed by the
11 Commission, and I served as the lead analyst for Staff in this proceeding. My
12 business address is the Richard Hemstad Building, 1300 South Evergreen Park
13 Drive Southwest, P.O. Box 47250, Olympia, Washington, 98504. My email
14 address is kristen.hillstead@utc.wa.gov.

15 I graduated from The Evergreen State College in 1994 with a Bachelor of
16 Arts degree, with an emphasis in Accounting. I have also completed relevant
17 coursework, such as Western NARUC Utility Rate School. I started my career at
18 the Commission in 1990 and have worked in several sections at the Commission
19 prior to joining the Energy Regulation section of the Regulatory Services division
20 in 2013. During my tenure in Regulatory Services, I have been responsible for
21 auditing the books and records of regulated companies, examining affiliated
22 interest transactions, monthly service quality reports, analyzing eligible
23 telecommunications company filings, purchased gas adjustment filings, cost

1 recovery mechanism filings, and developing and presenting Staff recommendations
2 concerning filings by regulated companies at Commission open public meetings
3 and in adjudications.

4 I have testified in the following Commission proceedings: Docket UT-
5 040788, Verizon Northwest Inc.'s general rate case; Docket UT-061625, Qwest
6 Corporation's petition for an alternative form of regulation; Docket UT-090842,
7 Verizon/Frontier transfer of control; Docket UT-100820, Qwest Communications
8 International Inc., and CenturyTel, Inc.'s joint application for approval of indirect
9 transfer of control; and Docket UG-170929 Cascade Natural Gas Corporation's
10 general rate case proceeding. In addition, I have written testimony in several
11 general rate cases that was ultimately sponsored by other Commission witnesses:
12 Docket UE-140762, Pacific Power & Light Company, and Dockets UE-150204 and
13 UG-150205 (consolidated), Avista Corporation.

14 **Q. Ms. Laycock, please provide information pertaining to your educational**
15 **background and professional experience.**

16 A. My name is Sarah Laycock, and I am employed as a Regulatory Analyst with the
17 Public Counsel. Public Counsel is a statutory party to proceedings before the
18 Commission under RCW 80.01.100, RCW 80.04.510, and RCW 81.04.500.

19 I earned a B.A. in English Literature from Sewanee: The University of the
20 South, as well as a Master of International Relations from Webster University.
21 Currently, I am pursuing a J.D. at Seattle University School of Law. Additionally,
22 I completed The Basics Practical Regulatory Training for the Electric Industry in
23 May 2018 through the Center for Public Utilities at New Mexico State University,

1 and completed the Public Utilities Reports Guide Principles of Public Utilities
2 Operations and Management course in May 2018.

3 My current employment as a Regulatory Analyst with Public Counsel began
4 in November 2017. Since joining the Attorney General's Office, I have worked on
5 a variety of energy and telecommunications matters, including Cascade's 2017
6 General Rate Case (UG-170929), the CenturyLink Line Extension Complaint (UT-
7 171082), the Avista/Hydro One Merger (U-170970), Pacific Power's EV Pilot
8 Program (UE-180757), the Community Solar Rulemaking (UE-171033), and the
9 PSE Macquarie Transaction (U-180680). Additionally, I have worked on energy
10 conservation, and integrated resource planning issues. In particular, I participate in
11 the conservation advisory group for Pacific Power, the Pacific Power IRP, and the
12 Statewide Advisory Group (SWAG).

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

15 A. My name is Bradley G. Mullins, and I am an Independent Energy and Utilities
16 Consultant representing large energy consumers before state regulatory
17 commissions. I am appearing in this matter on behalf of the AWEC.

18 I have a Master of Accounting degree from the University of Utah. After
19 obtaining my master's degree, I worked at Deloitte in San Jose, California, where
20 I specialized in performing research and development tax credit studies. I later
21 worked at PacifiCorp as an analyst involved in power cost forecasting. I began
22 performing independent energy and utility consulting in 2013 and currently provide
23 services to utility customers on matters such as revenue requirements, power cost

1 forecasting, and rate design. I have sponsored testimony in several regulatory
2 jurisdictions around the United States, including before the Commission.

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

5 A. I am the Director of The Energy Project (TEP), a program of the Washington State
6 Community Action Partnership housed at the Opportunity Council in Bellingham,
7 WA. I have been employed by Opportunity Council since 2006.

8 I have a B.A. from Eastern Illinois University and have been working on
9 issues impacting low-income populations since 2002 through Community Action
10 Partnership organizations and a variety of other nongovernmental entities. I have
11 been the Director of TEP since August of 2015. Additionally, I am an adjunct
12 faculty member for the Institute for Energy Studies, an interdisciplinary program at
13 Western Washington University. I have previously provided testimony on behalf
14 of TEP before this Commission, including in Dockets UE-150204/UG-150205
15 (Avista 2015 General Rate Case), Docket UE-152253 (Pacific Power 2015 General
16 Rate Case), Docket UG-152286 (Cascade Natural Gas 2015 General Rate Case),
17 Docket UE-161123 (PSE Microsoft Special Contract), Dockets UE-170033/UG-
18 170034 (PSE 2017 General Rate Case), Dockets UE-170485/UG-170486 (Avista
19 2017 General Rate Case), Docket UG-170929 (Cascade 2017 Natural Gas General
20 Rate Case), Docket U-170970 (Avista/Hydro One Merger), and Docket U-180680
21 (PSE Macquarie Sale).

22 Prior to my involvement with TEP, I was the Associate Director of a
23 division at Opportunity Council responsible for the implementation of a number of

1 weatherization programs benefitting low and moderate-income households
2 throughout northwest Washington State. Through my involvement with the energy
3 efficiency/regulatory sector, I have attended and presented at numerous national
4 conferences, participated in sector specific workshops and trainings, and was a
5 board member for Home Performance Washington from 2013-2015.

6 **Q. Would you briefly summarize the Agreement?**

7 A. Yes. As part of the Agreement, NW Natural's annual revenues would increase by
8 \$5.14 million, down from the Company's original request of \$8.3 million. The
9 Agreement results in an approximate 7.6 percent increase to overall revenues (or
10 billed revenues), compared to NW Natural's original request of an approximate
11 12.6 percent increase. In terms of increases to margin revenues (or base rate
12 revenues), the Agreement results in an approximate 12.7 percent increase to margin
13 revenues, compared to the original request of approximately 20.5 percent.

14 The Parties also agree to a return on equity ("ROE") of 9.40 percent and a
15 capital structure of 49 percent equity, 50 percent long-term debt, and one percent
16 short-term debt. The agreed overall rate of return ("ROR") is 7.161 percent.

17 The other issues that are addressed in the Agreement, and that are discussed
18 in greater detail later in our testimony include:

- 19 • **Miscellaneous Adjustments.** The agreed-upon revenue requirement
20 reflects adjustments with respect to revenue and gas costs, bonuses,
21 payroll, operations and maintenance ("O&M") expenses, investor-
22 supplied working capital ("ISWC"), allocation factors, post-test year
23 plant additions, and non-plant excess deferred income tax ("EDIT").
- 24 • **Rate spread/rate design.** The Parties agree to increase the Customer
25 Charge for Residential Rate Schedules 1, 2, 3 and 27, and to apply the
26 total revenue requirement increase on an equal percentage of margin

1 basis. Additionally, the Parties agree NW Natural will perform a second
2 adjustment within Rate Schedules 41 and 42.

- 3 • **Environmental Remediation.** The Parties agree to a Washington
4 allocation rate for both remediation expense and insurance proceeds.
5 The Parties also agree that there will be no recovery of expenses
6 incurred prior to January 26, 2011, and that expenses deferred between
7 January 26, 2011, and July 1, 2019, will be offset entirely with insurance
8 proceeds. Additionally, the Parties agree to an environmental cost
9 recovery mechanism (“ECRM”) for prudently incurred remediation
10 expense, which will be net of insurance proceeds and subject to a cap
11 on annual amortizations into rates.
- 12 • **Tax issues related to the Tax Cut and Jobs Act (“TCJA”).** The
13 Parties agree to resolve certain issues related to the TCJA, including
14 reflecting the lower tax rate in rates collected on a going-forward basis
15 and instituting two separate tariff riders to return to customers an interim
16 period deferral benefit and excess deferred income tax.
- 17 • **Energy Conservation.** The Parties agree to adjust the conservation cost
18 recovery mechanism to allow for contemporaneous recovery of
19 conservation expenses, and clearing the current accumulated deferral
20 balance over a four-year amortization period. In addition, the Parties
21 reached agreements regarding evaluating conservation cost-
22 effectiveness, potential, and acquisition, as well as annual planning and
23 reporting.
- 24 • **ISWC Accounting Methodology.** The Parties agree to formatting and
25 categorization of average of monthly averages (“AMA”) account
26 balances and to the use of a particular allocation methodology in this
27 docket and in Commission Basis Reports (“CBRs”) going forward.
- 28 • **Special Contract Feasibility Study.** The Parties agree the Company
29 will conduct an updated feasibility study within three years.
- 30 • **Interruptible Usage.** The Parties agree the Company will track
31 unauthorized gas use of interruptible customers during curtailments for
32 informational purposes.
- 33 • **Low Income Bill Assistance Program.** The Parties agree the Company
34 will establish an Advisory Group for its General Schedule J, Gas
35 Residential Energy Assistance Tariff (“GREAT”) Program, as well as
36 an action plan for improving the GREAT Program and a low-income
37 evaluation study to assess the need for low-income assistance and
38 weatherization among the Company’s Washington customers.
- 39 • **Discovery Process Suspension.** The Parties agree to suspend the
40 discovery process, effective immediately, except with respect to the
41 Company’s proposed decoupling mechanism.

42 **Q. What outstanding issue is not addressed by the Agreement?**

1 A. The Parties agree that issues pertaining to the Company’s proposed decoupling
2 mechanism remain contested. Those issues are addressed in a separate Partial
3 Multi-Party Settlement Agreement on Decoupling (the “Decoupling Agreement”)
4 among all parties except Public Counsel, and will be litigated and presented to the
5 Commission for resolution.

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

7 A. Yes. All Parties recommend approval of the Agreement by the Commission. The
8 Agreement represents a compromise among the Parties’ differing points of view,
9 and all Parties made concessions to reach a reasonable balancing of interests. As
10 will be explained in this Joint Testimony, the Agreement received significant
11 scrutiny and is supported by sound analysis and sufficient evidence. Its approval is
12 in the public interest.

13 **Q. What is the proposed effective date of the Agreement?**

14 A. The Parties have requested implementation of the Agreement on November 1,
15 2019, which represents a change to the original filing, which would have resulted
16 in rates becoming effective on December 1, 2019.¹ This proposed effective date
17 for early implementation is an integral part of the Agreement and was one of the
18 tradeoffs among the many concessions made on a variety of issues by the Parties.

II. BACKGROUND

19 **Q. Please describe the Company’s initial filing in this proceeding.**

20 A. On December 31, 2018, NW Natural filed a general rate case requesting a revenue

¹ See Revised Code of Washington (“RCW”) § 80.04.130(1).

1 increase of \$8.3 million, or an increase of approximately 12.6 percent to billed
2 revenue. The filing was based on an historical twelve-month period ending
3 September 30, 2018. The Company's request was based on a proposed ROR of 7.63
4 percent, a proposed ROE of 10.3 percent, proposed capital structure comprised of
5 49.5 percent equity, 49.5 percent long-term debt, and one percent short-term debt,
6 and a proposed Washington-allocated rate base of \$186,478,943.

7 **Q. Did the Parties conduct discovery on the Company's filing?**

8 A. Yes. The Commission suspended the filing and commenced discovery by Order 01,
9 dated January 8, 2019.² Pursuant to Order 01, Staff, Public Counsel, and AWEC
10 conducted extensive discovery on the Company's direct testimony, propounding
11 378 individually numbered data requests. The Company responded to the data
12 requests consistent with the Commission's procedural schedule in Order 03 of this
13 proceeding. All Parties had access to, and were able to review and analyze, that
14 discovery.

15 **Q. Did the Parties engage in settlement discussions?**

16 A. Yes. The Parties met on April 22, 2019, for the purpose of narrowing or resolving
17 the contested issues in this proceeding. The Parties held a second settlement
18 conference on April 30, 2019. Those discussions led to the Agreement presented
19 below, as well as the Decoupling Agreement presented in separate joint testimony.

20 **Q. Do all Parties support the Agreement?**

21 A. Yes. All Parties support the Agreement.

² *Washington Utilities and Transportation Commission v. Northwest Natural Gas, d/b/a NW Natural*,
Docket UG-181053, Order 01, at ¶¶ 14, 18 (Jan. 8, 2019).

III. ELEMENTS OF THE AGREEMENT

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

2 A. The Agreement' includes all issues presented in this proceeding, with the sole
3 exception of the Company's decoupling mechanism, which is addressed separately.
4 All Parties joined the Agreement. The Agreement contains a revenue requirement
5 and overall ROR that are lower than the Company's proposal in its original filing.
6 The Agreement sets forth the Parties' agreements on certain contested issues in this
7 case, including increases in base rates, cost of capital, rate spread/rate design, an
8 environmental cost recovery mechanism, energy conservation, low income
9 requirements, and an adjustment of rates for the effects of the TCJA, as well as
10 other issues discussed in greater detail below.

A. Revenue Increase and Effective Date

11 **Q. Please describe the revenue requirement increase agreed upon by the Parties.**

12 A. The Parties agree that the Commission should authorize NW Natural to implement
13 rate changes designed to increase annual revenues from Washington customers by
14 \$5,138,531 , or approximately 7.8 percent overall.

15 **Q. How would this increase in base rates affect an average residential customer?**

16 A. The Agreement would result in a bill increase (including gas costs) for an average
17 residential customer on Rate Schedule 2 of \$1.81, or 3.7 percent using 57 therms a
18 month.

1 **Q. When will this rate increase be effective?**

2 A. The Parties recommend that the agreed-upon rate changes become effective on
3 November 1, 2019. This effective date for early implementation was an integral
4 part of the compromise that took place during the negotiation of the Agreement.

B. Cost of Capital

5 **Q. Please describe the Parties' agreement regarding capital structure.**

6 A. The Parties agree to a capital structure comprised of 49 percent equity, 50 percent
7 long-term debt, and one percent short-term debt.

8 **Q. Please describe the Parties' agreement on ROE and cost of debt.**

9 A. The Parties agree to a ROE of 9.40 percent, a cost of long-term debt of 5.066
10 percent, and a cost of short-term debt of 2.186 percent.

11 **Q. What is the agreed upon overall ROR?**

12 A. The Parties agree to an overall ROR of 7.161 percent.

13 **Q. How do these cost of capital adjustments affect the revenue requirement?**

14 A. These adjustments result in a reduction of \$1,166,217 to the Company's filed
15 revenue requirement.

C. Miscellaneous Adjustments

16 **Q. Does the agreed-upon revenue requirement in the Agreement reflect any
17 adjustments?**

18 A. Yes. Although the Parties discussed different adjustments and took different
19 positions on how to justify the revenue requirement increase, the Parties agree that
20 the following adjustments to NW Natural's filing justify the agreed-upon revenue
21 requirement.

D. Revenue and Gas Costs

1 **Q. Please describe the adjustment related to revenue and gas costs in the**
2 **Agreement.**

3 A. The Parties agree to remove Demand Side Management (“DSM”) savings from
4 usage per customer calculations, resulting in a reduction of \$113,035 to the
5 Company’s filed revenue requirement.

E. Bonuses

6 **Q. Please describe the adjustment related to bonuses in the Agreement.**

7 A. The Parties agree to recalculate the bonus adjustment using a five-year average and
8 excluding the long-term portion of the Company’s executive compensation
9 program. This results in a \$271,144 reduction to the Company’s filed revenue
10 requirement.

F. Payroll

11 **Q. Please describe the adjustment related to payroll in the Agreement.**

12 A. The Parties agree to reduce payroll operations and maintenance expense, including
13 payroll overhead. This results in a \$87,414 reduction to the Company’s filed
14 revenue requirement.

G. Miscellaneous O&M Expense Adjustment

15 **Q. Please describe the adjustment related to miscellaneous O&M expenses in the**
16 **Agreement.**

17 A. The Parties agree to reduce O&M expense by \$250,000. This results in a \$260,844
18 reduction to the Company’s filed revenue requirement. Investor-Supplied Working
19 Capital

1 **Q. Please describe the adjustment related to ISWC in the Agreement.**

2 A. The Parties agree to reduce ISWC from the Company's original proposal of
3 \$12,717,540 to the amount of \$972,715 by re-categorizing certain accounts. This
4 results in a \$1,027,567 reduction to the Company's filed revenue requirement.

H. Allocation Factors

5 **Q. Please describe the adjustment related to Washington allocation factors in the**
6 **Agreement.**

7 A. Since the initial filing, NW Natural has updated its allocation factors for
8 Washington, resulting in a reduction of \$123,042 to the Company's filed revenue
9 requirement. The update was shared with all of the Parties in discovery, and filed
10 with the Commission on April 15, 2019. All further adjustments in the case have
11 been calculated from this update.

I. Post-Test Year Plant Additions

12 **Q. Please describe the adjustment related to post-test year plant additions in the**
13 **Agreement.**

14 A. The Parties agree that all of the Company's major post-test year plant additions
15 identified in the Direct Testimony of Joe S. Karney (Exh. JSK-1T) have been
16 included in rate base, with the exception of the following projects: Network
17 Control Systems ("NCS") Tech Refresh, NCS Tech Refresh Microwave, Lacamas
18 Regional Gate Station, Mist Standby Generator, and Mist Fiber Network. Removal
19 of these projects results in a \$107,326 reduction to the Company's filed revenue
20 requirement.

J. Non-Plant EDIT

1 **Q. Please describe the adjustment related to non-plant EDIT in the Agreement.**

2 A. The Parties agree that non-Plant EDIT will be removed from Deferred Taxes
3 included in rate base. This results in a \$16,924 reduction to the Company's filed
4 revenue requirement.

K. Rate Design/Rate Spread

5 **Q. What are the Parties' agreements respecting increases to customer charges?**

6 A. The Parties agree to increase the Customer Charge for Residential Rate Schedule 1
7 to \$5.50 and to increase the Customer Charge for Rate Schedule 2 to \$8.00. In
8 addition, the Parties accept the increases to the customer charges proposed in the
9 Company's filing for the following schedules: Commercial Rate Schedule 1 to
10 \$7.00; Commercial Rate Schedule 3 to \$22.00; Industrial Rate Schedule 3 to
11 \$22.00; and Residential Heating Dry Out Rate Schedule 27 to \$9.00.

12 **Q. How will the revenue requirement increase be applied?**

13 A. The Parties agree to apply the total revenue requirement increase of \$5,138,531 on
14 an equal percent of margin basis across all rate schedules.

15 **Q. Have the Parties agreed to any further adjustments regarding rate spread/rate
16 design?**

17 A. Yes. The Parties agree the Company will perform a second adjustment, within Rate
18 Schedules 41 and 42, such that sales and transportation margin rates in those two
19 rate schedules receive the same percentage increase.

L. State Allocation of Environmental Remediation

20 **Q. What allocation rate do the Parties agree to apply for Washington?**

1 A. For environmental remediation at the five sites located on and around the original
2 Gasco plant that are allocable to both Washington and Oregon customers (“the
3 shared sites”), the Parties agree to allocate to Washington 3.32 percent of
4 environmental remediation expense and 3.32 percent of insurance proceeds related
5 to those sites.

M. Treatment of Historical Environmental Remediation Costs

6 **Q. How has the Company tracked environmental remediation expense incurred**
7 **to date at the shared sites?**

8 A. Since early 2011, NW Natural has been deferring the Washington-allocable portion
9 of these costs pursuant to Order No. 01 in Docket UG-110199, as well as the
10 insurance proceeds and other third-party payments received by the Company in
11 connection with these costs.³ In Order 01, the Commission authorized deferred
12 accounting for environmental remediation costs, but included the following
13 condition: “Any costs incurred prior to this filing are not eligible for deferred
14 accounting treatment.”⁴ The petition was filed January 26, 2011, but the Company
15 did not defer any expenses prior to February 1, 2011. Pursuant to Order 01, interest
16 has not accrued on these balances.

17 **Q. Has the Company incurred expenses at the shared sites that are not deferred?**

18 A. Yes. As agreed to by the Parties, the Company will not recover \$1.488 million of
19 environmental remediation expense that it incurred prior to the filing date of the

³ *In the Matter of Northwest Natural Gas Corp., For an Accounting Order Authorizing Deferred Accounting Treatment of Certain Costs Associated with Environmental Remediation*, Docket UG-110199, Order 01, at ¶¶ 11-12 (June 30, 2011).

⁴ *Id.* at ¶ 12.

1 accounting petition granted in the Commission's Order No. 01 in Docket UG-
2 110199.

3 **Q. How will insurance proceeds be applied to environmental remediation expense**
4 **incurred for the period of February 1, 2011, through November 30, 2018?**

5 A. The Parties agree the Company will apply insurance proceeds to entirely offset
6 deferred environmental remediation expenses of \$3.017 million for the period of
7 February 1, 2011, through November 30, 2018.

8 **Q. How will insurance proceeds be applied to environmental remediation expense**
9 **incurred during the period December 1, 2018, through June 30, 2019?**

10 A. The Parties agree that expenses deferred during that period will be offset entirely
11 with insurance proceeds, subject to a review of the prudence of those expenditures
12 in the July 15, 2020, ECRM tariff filing set forth in paragraph 18.b of the
13 Agreement.

N. Environmental Cost Recovery Mechanism

14 **Q. Please provide an overview of the proposed Washington ECRM, as agreed to**
15 **by the Parties.**

16 A. The Parties agree NW Natural will establish its proposed ECRM, subject to the
17 terms of the Agreement. The annual ECRM filing would provide for an annual
18 process whereby parties can review and challenge the prudence of the Company's
19 environmental remediation expenditures. Through the ECRM, prudent
20 Washington-allocable costs for each calendar year would be amortized and
21 incorporated into rates, beginning the following November 1. Like other simple

1 cost recovery mechanisms, prior period imbalances would be amortized over the
2 following year.

3 **Q. What is the timeline for this annual review process?**

4 A. The Parties agree the Company will make an annual ECRM tariff adjustment filing
5 on or before July 15 for rates effective each November 1. Between July 15 and the
6 date the filing is scheduled for consideration at an open meeting (which generally
7 would be the open meeting immediately before November 1), the Parties, and
8 ultimately Commissioners, would have an opportunity to review these costs to
9 assess whether they are appropriate for recovery.

10 **Q. Would the proposed ECRM modify existing annual reporting requirements**
11 **for NW Natural?**

12 A. Yes. Currently, under Order 02 in Docket UG-110199, the Company must file with
13 the Commission an annual report on March 1 regarding its deferred environmental
14 expenses and balances, “as well as provide a narrative summary along with a
15 timeline summarizing the status of each environmental remediation project.”⁵ As
16 part of the proposed ECRM, the annual report would be renamed the Washington
17 Environmental Cost Recovery Mechanism Regulatory Report, would be filed on
18 July 15 of each year, and would include information to support a prudency review
19 of the costs incurred for all Washington allocable shared site costs over the prior
20 calendar year, beginning with the report filed on July 15, 2020. Specifically, the
21 annual report would detail the Company’s recorded Washington allocable
22 expenditures for environmental remediation activities at the shared sites, as well as

⁵ Docket UG-110199, Order 02, at ¶ 4 (May 31, 2018).

1 the receipt of any insurance or other third-party proceeds related to its Washington
2 allocable remediation activities during that same time period.

3 **Q. Please describe the applicable time period for deferred remediation expense to**
4 **be included in this annual report and ultimately in rates.**

5 A. The Parties agree the ECRM rates will collect prudent expenditures deferred during
6 the immediately prior January 1 through December 31 period, less that year's
7 allocation of insurance proceeds.

8 **Q. When would the first ECRM rates go into effect?**

9 A. The Parties agree the first ECRM rates will go into effect on November 1, 2020,
10 for expenses deferred July 1, 2019, through December 31, 2019. As discussed
11 elsewhere in this joint testimony, expenses deferred prior to July 1, 2019, will be
12 offset entirely with insurance proceeds, subject to a review of the prudence of
13 expenditures deferred during the period December 1, 2018, through June 30, 2019.

14 **Q. How would the proposed ECRM spread the amortized expense across rate**
15 **schedules?**

16 A. The annual environmental remediation deferral amount in the ECRM Account
17 would be collected from all customers on an equal percent of margin basis.

18 **Q. Is there a cap on annual amortizations?**

19 A. Yes. The Parties agree that once the insurance proceeds have been fully expended
20 to offset deferred expenses, ECRM rates will not result in an increase to the
21 Company's Washington normalized revenues (as reported in the prior year's
22 Commission Basis Report) by more than one percent. In the event that amortization
23 of the prior year's deferred amounts over a one-year period would cause an increase

1 to the Company's Washington normalized revenues by more than one percent, then
2 the deferred amounts exceeding the one percent cap will be amortized over the next
3 three years, beginning with the next year's PGA tracking period.

4 **Q. What is the applicable interest rate?**

5 A. The Parties agree that if the amortization of an annual deferral balance exceeds one
6 year, the Company will assess interest at its cost of debt. If a deferral balance is
7 amortized over one year or less, no interest will accrue on that deferral balance.

8 **Q. You mentioned earlier that Washington allocable insurance proceeds would
9 be deducted from remediation expenses. Can you please elaborate?**

10 A. Yes. As discussed above, the Parties agree \$3.017 million in existing insurance
11 proceeds will be applied as a full offset to remediation expenses deferred during the
12 period February 1, 2011, to November 30, 2018. The non-Company Parties have
13 had the opportunity to review these expenses and agree that they were prudently
14 incurred. Existing insurance proceeds also will be applied as a full offset to
15 prudently incurred remediation expenses deferred during the period from
16 December 1, 2018, through June 30, 2019. From July 1, 2019, onward, the
17 Company will apply the remaining balance of insurance proceeds to offset deferred
18 expenses through the ECRM, which will be amortized over the 10.5-year period
19 July 1, 2019, through December 31, 2029. The amortization for July 1, 2019,
20 through December 31, 2019, will be a 6-month, pro rata share of the remaining
21 balance of insurance proceeds. Any additional insurance proceeds and third-party
22 payments will be added to the remaining balance of insurance proceeds and
23 amortized over the remaining time in the 10.5-year amortization period.

1 **Q. How would any future insurance proceeds received beyond the 10.5-year**
2 **amortization period be treated?**

3 A. The Parties agree that in the event that NW Natural receives additional insurance
4 proceeds or third-party payments after the 10.5-year amortization of the remaining
5 insurance proceeds, the Company will propose a new amortization schedule in its
6 first prudence review filing following receipt of such insurance proceeds or third-
7 party payments.

8 **Q. How would any negative deferral balances be treated?**

9 A. In the event that in some future year, recoveries from insurance providers or other
10 third-party payments allocable to Washington will more than fully offset shared
11 sites expenses, the amount would be amortized over one year and the deferral
12 balance in the ECRM Account would be returned to customers coincident with the
13 PGA filing effective November 1 of the year immediately following the negative
14 balance year. A credit balance may be carried, however, to the next PGA filing if it
15 is determined by the Commission that the credit balance is best used to offset future
16 expected environmental site remediation costs not yet recorded in the deferral
17 account, or for such other reasons as the Commission may approve.

O. Tax Issues Related to the Tax Cuts and Jobs Act

18 **Q. How did the TCJA, enacted on December 22, 2017, affect the corporate tax**
19 **rate for the Company?**

20 A. The TCJA permanently lowered the federal corporate income tax rate from 35
21 percent to 21 percent, effective as of January 1, 2018.

1 **Q. How does the TCJA's change in corporate tax rate impact regulatory**
2 **treatment of the Company's federal income taxes?**

3 A. The corporate tax rate reduction created a need for regulatory treatment covering
4 three distinct areas: (1) the need to reflect the lower federal income tax rate in NW
5 Natural's Washington utility rates beginning on November 1, 2019 (the rate
6 effective date for this proceeding); (2) the appropriate regulatory treatment of the
7 interim period benefit associated with a lower tax rate from January 1, 2018,
8 through October 31, 2019; and (3) the remeasurement and appropriate regulatory
9 treatment for the benefit from the net decrease in NW Natural's cumulative utility
10 deferred income tax liability balances, recorded upon enactment of the TCJA in
11 2017, which NW Natural is currently deferring (EDIT deferral).

12 **Q. Is the lower federal income tax rate of 21 percent reflected in the revenue**
13 **requirement increase agreed to by the Parties?**

14 A. Yes. The reduced federal income tax rate resulting from the TCJA was used to
15 calculate the Company's income taxes for the test year.

16 **Q. How do the Parties recommend the interim period benefit be addressed?**

17 A. The Parties agree an interim period benefit of \$2.1 million should be reflected as a
18 reduction in customer rates through a tariff rider and amortized over a one-year
19 period beginning on the effective date of new rates in this proceeding.

20 **Q. Does the Agreement reflect the particular methodology for calculating this**
21 **interim period benefit?**

1 A. No. The Agreement establishes a specific amount to be returned to customers and
2 does not reflect the particular methodology for calculating the interim period over-
3 collection.

4 **Q. What is the Parties' recommendation for EDIT balances recorded as of the**
5 **enactment of the TCJA?**

6 A. The Company's EDIT balance can be separated into two categories, Plant EDIT
7 and non-Plant EDIT, which are subject to different federal income tax rules. The
8 Parties have agreed to one treatment for Plant EDIT and another for non-Plant
9 EDIT.

10 **Q. How do the Parties recommend the Plant EDIT deferral be addressed?**

11 A. The Parties agree that Plant EDIT allocated to Washington will be \$14.592 million
12 before gross-up for taxes. Plant EDIT will be amortized consistent with federal
13 normalization rules and credited to customers as a reduction to customer rates
14 through a tariff rider. The initial annual amortization will be \$400,000 before any
15 applicable income tax and revenue sensitive tax gross ups are applied (\$528
16 thousand after reflecting the gross-up factor).

17 **Q. How do the Parties recommend the non-Plant EDIT deferral be addressed?**

18 A. The Parties agree non-plant EDIT will be set to zero and will not result in a
19 collection from or benefit to customers. There was disagreement among the parties
20 as to whether non-Plant EDIT should be a positive or a negative number. Setting
21 non-Plant EDIT to zero was a compromise among the parties.

P. Energy Conservation

1 **Q. Please describe the Parties' agreement with respect to the conservation cost**
2 **recovery mechanism.**

3 A. The Parties agree that the conservation cost recovery mechanism will be revised to
4 allow for contemporaneous recovery of expenses. NW Natural will file a
5 conservation tariff adjustment each year by September 15, with an effective date of
6 November 1, and for rates calculated to recover projected expenses for the
7 following 12 months (plus any remaining balance from the prior period).

8 Although expenses would continue to be deferred over the course of a year,
9 the revised mechanism would aim to allow the Company to clear the deferral
10 balance within the year the expenses are incurred. In contrast, the mechanism in its
11 current form recovers costs from two years prior; for example, the Company's
12 current rates are collecting deferred conservation expenditures from 2017.

13 **Q. What is the schedule for conservation cost recovery?**

14 A. Rates effective November 1 through the following October 31 will be calculated to
15 collect the forecasted expenses for that same time period plus any remaining
16 balance from the prior period. The prior period's remaining deferral balance arises
17 from any variations between the forecasted expenditures and actual expensed
18 amounts for the same period.

19 **Q. How will the initial cumulative deferral balance be addressed?**

20 A. Adjusting the mechanism to align revenues and expenses in time (in effect, starting
21 over) requires zeroing out the current conservation deferral balance. The projected
22 cumulative deferral balance of approximately \$5.25 million as of October 31, 2019,

1 will be amortized over a four-year period November 1, 2019 through October 31,
2 2023. Interest will accrue on this balance at the FERC rate over the four-year
3 amortization period.

4 **Q. Please describe the source of the cumulative deferral balance.**

5 A. The \$5.25 million cumulative deferral balance is composed of \$2.84 million from
6 January 1, 2018, through February 28, 2019, and \$2.41 million projected for March
7 1, 2019, through October 31, 2019. An additional deferral balance of \$1.1 million
8 associated with 2017 expenditures is being recovered through current rates and is
9 expected to be cleared by October 31, 2019.

10 **Q. How will the Company respond to any future Commission rulemaking or**
11 **order addressing treatment of interest on deferred conservation balances?**

12 A. The Parties understand that the treatment of interest on deferred conservation
13 balances may be modified by future Commission action, including adoption of new
14 rules in response to HB 1257 (An Act Relating to Energy Efficiency), which the
15 Governor signed into law (Chapter 285, 2019 Laws), effective July 28, 2019. To
16 the extent that interest on the balances identified in paragraph 20.b.i–ii of the
17 Agreement is addressed in a future Commission rulemaking or order, the Company
18 will comply with such rule or order upon the effective date of such rule or order.

19 **Q. Please describe the Parties' agreements regarding conservation acquisition.**

20 A. The Parties agree the Company will identify and acquire all available cost-effective
21 conservation as identified in the Company's energy efficiency plans. Every year,
22 the Company will propose an annual conservation target and demonstrate that the
23 target represents acquisition of all available cost-effective conservation resources.

1 **Q. How will the Company evaluate cost-effectiveness?**

2 A. The Parties agree the Company will use a properly-balanced Total Resource Cost
3 (TRC) or, if one is not available, a Utility Cost Test (UCT), to determine the cost
4 effectiveness of the conservation program.

5 **Q. How will the Company assess conservation potential?**

6 A. The Parties agree the Company will conduct an independent conservation potential
7 assessment (“CPA”) every two years, projecting the 20-year conservation potential.
8 The independent CPA may be prepared by a consultancy firm, such as the Energy
9 Trust of Oregon or other qualified third-party source, as determined by the
10 Company. The independent CPA should inform the Company’s integrated
11 resource plan (“IRP”) process and will be filed along with the Company’s IRP.

12 **Q. What are the Parties’ agreements with respect to planning and reporting?**

13 A. The Company will file an annual conservation plan by December 1 of each year.
14 The annual conservation plan will describe anticipated DSM activities for the
15 upcoming calendar year and how the plan will help the Company achieve its annual
16 conservation target. The Company will also file an annual conservation report by
17 June 1 of each year, describing the DSM program’s targets and gas savings
18 achieved and comparing actual expenses and forecasted expenses for the previous
19 calendar year. The Company will hold Energy Efficiency Advisory Group
20 (“EEAG”) meetings quarterly. Such quarterly meetings will replace the quarterly
21 and semi-annual reports currently required in the Company’s Tariff General
22 Schedule G (Energy Efficiency Services and Programs – Residential and
23 Commercial). The Company will provide drafts of annual reports, annual plans,

1 and all tariff adjustments to the EEAG for review at least 20 calendar days prior to
2 filing.

3 **Q. Do the Parties' agreements regarding energy conservation apply to industrial**
4 **customers?**

5 A. No. The Company's industrial customers will be excluded from the terms and
6 conditions of paragraph 20 of the Settlement.

7 **Q. What other limits do the Parties recognize regarding the agreements related**
8 **to energy conservation?**

9 A. The Parties understand that Section G of the Agreement relates to the terms of the
10 Agreement only and does not preclude the Company from complying with new or
11 existing statutory requirements. The Parties understand that new laws, such as those
12 enacted by the passage of HB 1257, or new Commission rules with respect to
13 natural gas energy efficiency, may supersede the terms of the Agreement and may
14 require the Company to modify its energy conservation plan and compliance with
15 the terms agreed to in the Agreement.

Q. ISWC Accounting Methodology

16 **Q. Please describe the Parties' agreement regarding the accounting methodology**
17 **for ISWC.**

18 A. The Parties agree that in this docket, the Company will use the format provided in
19 its response to WUTC DR 7. An excerpt of NW Natural's response to UTC Staff
20 Data Request No. 7 is attached as a working example titled Exh. JT-2. Specifically,
21 the Company will place AMA account balances into one of the following
22 categories: current assets, current liabilities, average invested capital, and

1 investments. The Company will then categorize the investment AMA amounts as
2 Washington, Oregon, or non-operating. Then, the Company will multiply the
3 percentage of the total investment representing Washington, to calculate ISWC for
4 Washington.

5 **Q. How will construction work in progress be treated?**

6 A. The Company will include construction work in progress (CWIP) in the non-
7 operating category for purposes of allocating ISWC among Washington, Oregon,
8 and non-operating categories.

9 **Q. Will the Company also use this format in its CBRs going forward?**

10 A. Yes, the Parties agree the Company will use this format and categorization for
11 accounts, including the allocation method, when calculating the Washington ISWC
12 amount to add to rate base in the CBRs.

R. Special Contract Feasibility

13 **Q. Please describe the Parties' agreement with respect to special contracts.**

14 A. The Parties agree the Company will conduct an updated feasibility study for its
15 special contracts within three years after the effective date of new rates in this
16 proceeding.

S. Interruptible Usage

17 **Q. Please describe the Parties' agreement with respect to interruptible usage.**

18 A. The Parties agree that for informational purposes, the Company will track the
19 unauthorized gas use of interruptible customers during curtailments.

T. Low Income Bill Assistance Program

1 **Q. Please describe the Parties' agreements related to the Company's GREAT**
2 **Program.**

3 A. The Parties agree the Company will establish an Advisory Group for the GREAT
4 Program ("Advisory Group"), consisting of NW Natural, TEP, Public Counsel,
5 Staff, and agency representatives and other interested stakeholders.

6 **Q. When will this Advisory Group be established?**

7 A. The Company will establish the Advisory Group by September 1, 2019, with the
8 first meeting to be held by November 1, 2019.

9 **Q. How frequently will the Advisory Committee convene?**

10 A. Subsequent Advisory Group meetings will occur at least quarterly until December
11 31, 2020, and at least twice a year after January 1, 2021.

12 **Q. What will be the goals for the Advisory Group?**

13 A. The Parties agree the Advisory Group's goals will be: (1) to keep customers
14 connected to natural gas service; (2) to provide assistance to more customers than
15 are currently served; (3) to lower the energy burden of GREAT Program
16 participants; and (4) to collect data necessary to assess GREAT Program
17 effectiveness and to inform ongoing policy discussions.

18 **Q. Is there a timeline for developing improvements to the GREAT Program?**

19 A. Yes. The Parties agree that by July 1, 2020, the Advisory Group will present an
20 action plan to improve the GREAT Program.

21 **Q. What is the Parties' agreement regarding a low-income evaluation study?**

1 A. The Parties agree the Company will work in consultation with the Advisory Group
2 to produce a low-income evaluation study to assess the need for low-income
3 assistance among the Company's Washington customers, including low-income
4 weatherization, and to identify ways to improve the GREAT Program to better align
5 with the Advisory Group goals described above.

6 **Q. Will the Company seek to recover costs of this study from customers?**

7 A. No, the Parties agree the Company will not seek recovery of the costs of the low-
8 income evaluation study from customers.

U. Discovery Process

9 **Q. Please describe the Parties' agreement regarding the discovery process.**

10 A. The Parties agree the discovery process of this proceeding is suspended
11 immediately, except that the discovery process of this proceeding relating to the
12 Company's proposed decoupling mechanism will continue as set forth in the
13 procedural schedule in Order 03 of this proceeding or any subsequently issued
14 Commission order that affirmatively addresses a discovery cut-off date.⁶

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

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

17 A. The Commission's charge is to regulate in the public interest. The Commission's
18 settlement approval standards are set forth in WAC 480-07-750(2), providing that
19 "[t]he commission will approve a settlement if it is lawful, supported by an

⁶ Docket UG-181053, Order 03, Appendix B (Jan. 25, 2019).

1 appropriate record, and consistent with the public interest in light of all the
2 information available to the commission.” The settlement, if approved, must result
3 in rates that are fair, just, reasonable, and sufficient.⁷ As such, the Commission must
4 not only assure fair rates to a company’s customers, but also provide a company
5 with rates that will be sufficient to cover its prudently incurred costs and an
6 opportunity to recover a reasonable return on its investment. The Agreement in this
7 case represents the Parties’ best efforts to arrive at an end result that satisfies these
8 requirements.

A. Statement of NW Natural (Zachary D. Kravitz)

9 **Q. What are the primary factors driving the Company’s need for a natural gas**
10 **rate increase?**

11 A. The Company’s need for a rate increase is driven primarily by increased rate base
12 additions and increased pressures on O&M expenditures. Over the past 11 years,
13 the Company has made substantial investments in its distribution system to assure
14 the safety and reliability of its system, particularly in Southwest Washington.
15 Additionally, despite efforts to control costs, the Company has experienced
16 increases in O&M expenditures as a result of the pressures of inflation and the need
17 to retain and build its labor force to provide effective utility service.⁸

⁷ RCW § 80.28.010(1).

⁸ Direct Testimony of David H. Anderson, Exhibit DHA-1T, at 11; Direct Testimony of Joe S. Karney, Exhibit JSK-1T, at 5-6.

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

3 A. The Agreement provides reasonable values for the Company's revenue
4 requirement, cost of capital, and rate design/rate spread, and it allows NW Natural
5 to focus on operations rather than continuing to expend time and resources on
6 litigation. Additionally, the Agreement provides an environmental cost recovery
7 mechanism that allows timely recovery of prudently incurred environmental
8 remediation expense through a new tariff schedule, and it resolves issues regarding
9 recovery of remediation expenses that have been deferred since February 2011.
10 The Agreement also provides clarity on the effects of the TCJA, fully resolving
11 issues not only regarding tax expenses going forward, but also regarding refunds to
12 customers for over-collection of taxes during the interim period following passage
13 of the TCJA and the decrease in the Company's deferred income tax liability
14 balances.

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

17 A. The Agreement is in the public interest because it strikes a reasonable balance
18 between the interests of NW Natural and its customers on the issues raised in NW
19 Natural's initial filing (noting that the Company's decoupling proposals are
20 addressed in a separate Decoupling Agreement), including revenue requirement,
21 cost of capital, and rate design/rate spread. The public interest is further served
22 because the Agreement provides for a more robust conservation program, and it
23 establishes an advisory group for the GREAT Program comprised of key

1 stakeholders. We look forward to strengthening these programs, and this
2 Agreement provides the tools to do so.

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

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

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

8 A. Yes.

B. Statement of Commission Staff (Kristen Hillstead)

9 Staff's discussion of its support of the Agreement addresses the following topics:

- 10 1. Summary of Staff Support of the Agreement
- 11 2. Revenue Requirement
- 12 3. Rate Spread/Rate Design
- 13 4. Tax Cuts and Jobs Act (TCJA)
- 14 5. Environmental Cost Recovery Mechanism (ECRM)
- 15 6. Conservation
- 16 7. Low-Income Bill Assistance
- 17 8. Investor-Supplied Working Capital (ISWC)
- 18 9. Other Issues
- 19 10. Conclusion

1 *I. Summary of Staff Support of the Agreement*

2 **Q. Please summarize why the Agreement satisfies the interests and concerns of**
3 **Staff.**

4 A. Staff's interest in this proceeding was to ensure additional revenues provided to the
5 Company were justified, and that specific issues received appropriate resolution.

6 Beyond providing for a revenue increase that Staff believes to be justified,
7 the Agreement provides a number of additional benefits. It includes agreements
8 related to conservation acquisition and low-income support; it ensures that investor-
9 supplied working capital ("ISWC") is calculated in a manner consistent with other
10 utilities operating in Washington; it improves the timeliness of conservation cost
11 recovery; it establishes an environmental cost recovery mechanism ("ECRM"),
12 providing much-needed resolution of the Company's accumulating deferred
13 remediation expenses; and it provides ratepayers with the benefits associated with
14 the Tax Cuts and Jobs Act ("TCJA"), which is also an issue that was ripe for
15 resolution.

16 Based on Staff's extensive review of the Company's filing, Staff believes
17 this Agreement – taken as a whole and with consideration of the issues Staff
18 intended to present if the case were to be fully litigated – meets the Commission's
19 settlement approval standard and, ultimately, results in rates that are fair, just,
20 reasonable, and sufficient.

1 **2. Revenue Requirement**

2 **Q. Does Staff believe the revenue increase agreed upon in this Agreement is**
3 **justified?**

4 A. Yes. The agreed-upon \$5.1 million increase to the Company's revenues is
5 appropriate as it is supported by the record and has withstood the critical review of
6 the parties to this Agreement. The agreed-upon revenue requirement in this
7 Agreement, representing a reduction of approximately 38 percent to the Company's
8 original request of \$8.3 million, is very similar to the revenue requirement that Staff
9 arrived at through its own independent analysis, giving Staff comfort that the
10 increase in revenues is reasonable.

11 **Q. What are the primary reasons the agreed-upon revenue requirement is lower**
12 **than what the Company initially proposed?**

13 A. The lower revenue requirement is due in part to setting the Company's return on
14 equity ("ROE") to 9.4 percent, a level significantly lower than the 10.3 percent the
15 Company initially requested. The Company's current ROE is 10.1 percent.
16 Reducing the ROE to 9.4 percent puts NW Natural more in line with the approved
17 ROEs of other regulated energy utilities in Washington and is more congruent with
18 current market conditions. This adjustment alone reduced the revenue requirement
19 by approximately \$1.2 million.

20 The agreed-upon revenue requirement also reflects a limitation on inclusion
21 of post-test period plant additions, consistent with Staff's position that plant being
22 included in rates through a pro forma adjustment should be "major" and verified to
23 be in service and providing benefit to ratepayers. The Agreement reflects Staff's

1 perspective on the categorization of accounts for the calculation of ISWC and the
2 allocation of ISWC which resulted in a revenue requirement reduction of \$1.03
3 million.

4 **Q. When do the new rates become effective?**

5 A. The Agreement proposes to implement rates effective with service on and after
6 November 1, 2019.

7 **Q. Does Staff support the early implementation of rates?**

8 A. Yes. NW Natural has several tariff filings in the fall that result in rate changes
9 effective November 1, 2019, specifically the Company's purchased gas adjustment
10 (PGA) filings. Implementing rate changes from this case would coincide with the
11 rate adjustments from the PGA filings, and prevent customers from experiencing
12 back-to-back rate changes.

13 Furthermore, the agreement to implement rates a month early is an
14 important component of the overall settlement package, allowing the Parties to
15 reach compromises on other items in this case. Staff not only supports this term on
16 its own merits, but also for its value in securing support for the overall settlement
17 package.

18 **3. Rate Spread/Rate Design**

19 **Q. What is the agreement on rate spread and rate design?**

20 A. The Parties agreed to use an equal percent of margin approach to rate spread and
21 agreed to a modest increase in the basic charge for Schedules 1, 2, 3, and 27.

22 **Q: Did the Company provide a cost of service study in its filing?**

1 A: Yes. The Company did provide a cost of service study in its filing; however, the
2 Company's study relied on a design day approach which Staff did not agree was
3 appropriate or particularly useful in informing rate spread or rate design.

4 **Q. Why is an equal percent of margin rate spread approach appropriate in this**
5 **case?**

6 A. Typically, a cost of service study would be used to inform rate spread. However,
7 the disagreement on the appropriateness of a design day approach meant that if
8 there were to be a settlement on rate spread, it would not be informed by the
9 Company's cost of service study. In the absence of a cost of service study, an equal
10 percent of margin rate spread is preferable as it treats all rate schedules equally.

11 Additionally, the ongoing cost of service rulemaking in Dockets UE-
12 170002 and UG-170003 is actively contemplating various cost of service issues,
13 making that venue the most appropriate for pursuing resolution of this issue. Asking
14 the Commission to decide this issue in this adjudication would undermine the
15 purpose of the rulemaking.

16 **Q: Does the proposed rate design result in fair rates?**

17 A: Yes. While every settlement includes certain gives and takes, the end result here is
18 in line with recent rate cases for other regulated companies. The basic charge
19 increases to Schedules 1, 2, 3, and 27 were based on the Company's initial proposed
20 rate design, and Schedule 1 residential and Schedule 2 residential basic charge
21 increases were reduced from the Company's filing. It is fair to divide the equal
22 percent of margin increase between the basic charge and volumetric charge for the
23 identified schedules because it has been 10 years since the base rates have changed

1 and an increase in customer costs can be at least partially reflected in a modest
2 increase to the basic charge.

3 This approach is also similar to the approach taken in the most recently
4 concluded natural gas general rate case. As a point of reference, in the recently
5 concluded Cascade Natural Gas rate case, Docket UG-170929, the Commission
6 approved an increase to the basic charge while using an equal percent of margin
7 rate spread. In its decision on that case, the Commission also referred to the ongoing
8 Commission processes with respect to cost of service.

9 **4. Tax Cuts and Jobs Act**

10 **Q. Please summarize the Agreement as it pertains to tax benefits associated with**
11 **the TCJA.**

12 A. The Agreement benefits ratepayers by proposing resolution of all outstanding items
13 related to tax reform. More specifically, the Agreement (1) incorporates the lower
14 21 percent corporate tax rate into the revenue requirement calculation, (2) refunds
15 to customers over the next year the interim period (January 1, 2018, through
16 October 31, 2019) over-collection of taxes, and (3) ensures excess deferred income
17 taxes (EDIT) are returned to ratepayers.

18 **Q. Please explain the issue of the over-collection of federal income taxes and how**
19 **the Agreement resolves this issue.**

20 A. On January 1, 2018, enactment of the TCJA reduced the effective federal corporate
21 income tax rate from 35 percent to 21 percent. However, NW Natural's rates
22 continue to include a tax expense based on a 35 percent corporate tax rate. Thus,

1 the Company has been over-collecting federal income taxes since January 1, 2018,
2 and will continue to do so until new rates go into effect.⁹

3 The Agreement resolves this issue in two ways. First, by embedding the 21
4 percent tax rate into the revenue requirement calculation, the over-collection of
5 taxes will cease on the date new rates go into effect (November 1, 2019, if this
6 Agreement is approved). Therefore, this Agreement establishes the interim period
7 as January 1, 2018, through October 31, 2019, and provides the benefit of a lower
8 tax rate to customers going forward.

9 Second, this Agreement establishes an interim period over-collection
10 amount of \$2.1 million that will be passed back to ratepayers, and it establishes that
11 that amount will be passed back over a 12-month period beginning November 1,
12 2019.

13 **Q. Does the Agreement resolve the issue of *how* to calculate the interim period**
14 **over-collection?**

15 A. No, it does not. There was disagreement among the Parties as to the appropriate
16 methodology for calculating the interim period over-collection. The Parties agreed
17 that it was important to identify an amount to be passed back to ratepayers, but to
18 also preserve their abilities to offer arguments on methodology in other
19 proceedings.

20 **Q. Why did the tax change create “excess” deferred income taxes?**

21 A. A company’s calculation of income to determine its actual income tax owed to the
22 IRS is computed using a “tax accounting” framework that differs from what is used

⁹ The Parties propose that new rates go into effect with service on and after November 1, 2019.

1 to calculate income (and therefore income tax) for ratemaking. In short, the IRS
2 allows accelerated depreciation for tax accounting purposes, increasing
3 depreciation expense and reducing taxable income in the early years of a plant's
4 life. Regulatory accounting does not allow accelerated depreciation; instead it
5 spreads the cost of an asset evenly over the asset's useful life. Thus, there is a
6 disconnection between the amount of tax collected in rates and the amount of tax
7 paid to the IRS. The difference between taxes collected through rates and taxes
8 actually paid to the IRS is referred to as a deferred tax liability. It is on the
9 company's balance sheet as a liability because eventually it will be paid to the IRS.

10 The change in the corporate tax rate caused a situation in which the deferred
11 tax liability no longer reflects the amount that will be paid to the IRS. The amount
12 of deferred taxes that has been collected from ratepayers but will no longer be paid
13 to the IRS is referred to as Excess Deferred Income Taxes, or EDIT. This over-
14 collection of income tax can be categorized into two categories: plant and non-
15 plant. Staff refers to these two categories as protected-plus and unprotected,
16 respectively.

17 **Q. How does the Agreement address plant and non-plant EDIT?**

18 A. For non-plant EDIT, there was disagreement as to whether the correct amount was
19 a positive or a negative number. In other words, there was not agreement on
20 whether customers owed or were owed an amount associated with non-plant EDIT.
21 As part of the overall resolution of this case, the Parties agreed to compromise and
22 set the non-plant EDIT amount to zero. This agreement resolves all issues
23 associated with non-plant EDIT.

1 For plant EDIT, the Parties agreed to set an initial amortization amount of
2 \$400,000, consistent with IRS normalization rules.

3 **Q. How are TCJA benefits returned to ratepayers?**

4 A. Aside from the lower corporate tax expense embedded in base rates going forward,
5 ratepayers receive the benefits of both the interim period over-collection and the
6 amortization of EDIT through separate tariff schedules. The interim period over-
7 collection will be passed back over one year while EDIT will be passed back over
8 the lives of the underlying assets, consistent with federal normalization rules.

9 **Q. Does Staff support the agreed-upon terms related to Tax Reform?**

10 A. Yes. This Company is one of the last to come in for a rate revision after the passage
11 of the TCJA. In the interest of ensuring ratepayers receive the benefits of the TCJA
12 and because of the potential for intergenerational inequities associated with long
13 delays in passing TCJA benefits on to ratepayers, it is extremely important that all
14 tax reform items be resolved in this case. This Agreement achieves full resolution
15 of these issues and provides benefits to ratepayers through (1) a lower tax expense
16 embedded in rates going forward, (2) a refund of over-collection of taxes between
17 January 1, 2018, and October 31, 2019, and (3) a refund of EDIT due to the decrease
18 in NW Natural's deferred income tax liability balances.

19 **5. Environmental Cost Recovery Mechanism (ECRM)**

20 **Q. Please discuss the background of the environmental remediation cost recovery**
21 **requested in this case.**

22 A. The predecessor companies to NW Natural operated sites in and around Portland,
23 Oregon that now require significant environmental remediation. These five sites

1 (Gasco; Wacker or Siltronic; Portland Harbor; Tar Deposit; and Central Gas
2 Holdings) are known as the “shared sites” for which costs are allocated to both
3 Oregon and Washington ratepayers. Though the Company began remediation work
4 in 2003, it did not file for permission to defer costs allocable to Washington
5 ratepayers until January 26, 2011, in Docket UG-110199.

6 From 2003 through January 26, 2011, the Company spent \$44.0 million, of
7 which approximately \$1.5 million was allocable to Washington ratepayers.
8 Between January 26, 2011, and November 30, 2018, the Company spent \$91.8
9 million, with \$3.02 million allocable to Washington ratepayers. The Company will
10 continue to incur expenses associated with this environmental remediation activity
11 over the next decade.

12 **Q. Please describe how the Agreement addresses environmental remediation**
13 **expenses.**

14 A. The terms of the Agreement regarding environmental remediation resolve both (1)
15 the backward-looking deferred expenses and (2) ongoing expenses.

16 **Q. How is the backward-looking deferral balance resolved in this Agreement?**

17 A. The Agreement provides that the approximately \$1.5 million in expenses incurred
18 prior to January 26, 2011, will not be recovered from ratepayers and will not be
19 offset with insurance proceeds. Under the terms of Order 01 in Docket UG-110199,
20 Washington-allocated costs incurred prior to the filing date of the Company’s
21 petition for deferred accounting treatment were not eligible for deferral; therefore,
22 it was Staff’s position that these costs were not eligible to be offset with insurance
23 proceeds as proposed by the Company.

1 The Parties also agree that the environmental remediation expenses deferred
2 after February 1, 2011, are eligible to be recovered from ratepayers and may be
3 offset with insurance proceeds. February 1, 2011, represents the earliest date after
4 January 26, 2011, the date the accounting petition was filed, that the Company may
5 have deferred expenses.

6 **Q. How is the treatment of ongoing expenses resolved in this Agreement?**

7 A. The Agreement sets up an Environmental Cost Recovery Mechanism (“ECRM”)
8 that allows the Company to recover prudently incurred environmental remediation
9 costs through a new tariff schedule. The Company will defer expenses for each
10 calendar year and, subject to review by the Commission, will begin recovering
11 those expenses beginning the following November 1. The Agreement provides that
12 insurance proceeds will be amortized over a 10.5-year period, offsetting a portion
13 of the costs recovered from ratepayers.

14 **Q. Why does Staff support the ECRM?**

15 A. Staff supports the agreement on the ECRM because it allows for timely recovery
16 of prudently incurred costs, thus avoiding the build-up of large deferral balances
17 and interest accruals on those balances. Additionally, the agreement benefits
18 ratepayers by establishing that pre-deferral environmental remediation costs will
19 not be recovered from rates or offset with insurance proceeds. The combination of
20 using insurance proceeds to offset completely the cumulative deferral balance and
21 amortizing the remaining balance of insurance proceeds over the next 10.5 years
22 allows for a smooth transition into a fairly contemporaneous cost recovery

1 mechanism while also providing ratepayers some relief from the costs associated
2 with the expected remaining work.

3 This agreement on environmental remediation costs is the result of
4 substantial negotiation and compromise, ultimately producing a fair outcome for
5 both ratepayers and the Company and with consideration of intergenerational
6 equity.

7 **6. Conservation**

8 **Q. What agreement have the Parties reached regarding conservation cost**
9 **recovery?**

10 A. In short, the Parties have agreed to allow NW Natural to adjust the timing of
11 recovery of conservation expenditures such that annual revenues are collected
12 contemporaneously with the same year's expenditures.

13 Prior to any implementation of this settlement term, NW Natural will file
14 its annual conservation cost recovery tariff adjustment with a November 1 effective
15 date, which proposes the recovery of expenses incurred in the previous calendar
16 year. This current practice creates a significant delay between incurring
17 expenditures and recovering those expenditures through rates, and requires the
18 Company to carry a sizeable deferral balance.

19 Under the Agreement, going forward NW Natural will be able to file
20 conservation cost recovery rates that collect the projected costs for the next year.
21 Similar to the Company's PGA filing, the adjustment will include a true-up of
22 spending and collections from the previous period to account for any over- or
23 under-collection and any divergences between the previous year's forecast and

1 actual costs. In order to effect this contemporaneous alignment of revenues and
2 expenses, the currently existing deferral balance needs to be cleared through
3 amortization. The provision in the Agreement for a four-year amortization means
4 that the deferral balance will be cleared by October 2023, and this timeline is
5 reasonable.

6 Once the amortization has been completed, the conservation cost recovery
7 rider will adjust back down to reflect only the forecasted costs of the coming
8 program year and any necessary true-ups for previous year imbalances. The Parties
9 agree that interest should accrue on the initial deferral balance during the
10 amortization period, but that interest should not accrue on deferral balances going
11 forward.

12 **Q. Why is this arrangement better than the Company's current cost recovery**
13 **mechanism?**

14 A. This arrangement is beneficial in several ways. First, it minimizes the lag time
15 between funds being spent and funds being recovered from customers. This is
16 beneficial to the Company but also amends an intergenerational inequity by more
17 closely matching the customers who incurred those costs with the customers who
18 pay them back. The agreement to not assess carrying costs going forward benefits
19 ratepayers: Historically, revenues collected from customers included interest
20 assessed from large, prior-period balances, and the Agreement relieves customers
21 from paying interest on deferral balances. Third, contemporaneous cost recovery
22 aligns the Company's cost recovery mechanism more closely with that of other
23 utilities in the state.

1 **Q. Does Staff agree with the adoption of the four goals and deadline for the action**
2 **plan?**

3 A. Staff supports the adoption of the four goals, which have been adopted by other
4 utilities' low-income advisory groups. The four goals have provided clear guidance
5 for all stakeholders' endeavors to improve the programs. Staff has confidence that
6 stakeholders will be able to collaborate on low-income bill assistance issues and
7 deliver a mutually agreeable action plan by July 1, 2020.

8 **Q. What does Staff think of the low-income evaluation study?**

9 A. Staff applauds the Company's agreement to conduct a shareholder-funded study to
10 assess the need among its Washington customers for bill assistance as well as
11 weatherization. Staff believes such a study can inform all stakeholders about the
12 status of low-income programs as well as the direction for future improvements.
13 Provisions in this Agreement do not conflict with the Washington Clean Energy
14 Transformation Act which was enacted effective May 7, 2019.

15 **8. *Investor-Supplied Working Capital***

16 **Q. What is cash working capital?**

17 A. Cash working capital refers to the funds necessary to sustain a company in its day-
18 to-day operations. It is calculated, generally, by comparing current liabilities to
19 current assets. In concept, by comparing current liabilities to current assets, it is
20 possible to assess the extent to which cash generated by current assets is sufficient
21 to cover cash needed to pay current liabilities. To the extent current assets generate
22 cash insufficient to cover current liabilities, the company will require additional
23 cash supplied by investors (i.e., investor-supplied working capital, or ISWC).

1 **Q. What is the ratemaking perspective on cash working capital?**

2 A. In determining the appropriate rate base to use in the rate-setting process, an analyst
3 must first determine whether (and the extent to which) the company requires
4 additional cash from its investors. If it does, investors should be provided a return
5 on the capital they have committed. That return is provided by including ISWC in
6 the rate base calculation.

7 **Q. Please explain the basic methodology for calculating ISWC.**

8 A. Broadly speaking, ISWC is calculated using the “balance sheet method,” which
9 measures the difference between the capital invested in a business and the
10 investments made by the business. In other words, ISWC is the amount of invested
11 capital that was provided by investors and available for the company’s use, over
12 and above the company’s investments in operating plant, non-operating plant, and
13 other specific items of investment. If invested capital exceeds capital expenditures,
14 that amount is ISWC.

15 In summary, if investors supply working capital, and the amount of
16 investor-supplied working capital is shown to be appropriate and necessary, that
17 amount is included in rate base and earns a return.

18 **Q. How is ISWC allocated to the regulated portion of NW Natural’s business?**

19 A. Once the appropriate amount of ISWC is calculated, two basic assumptions are
20 applied:

- 21 1. ISWC is used for both operating and non-operating investments; and
- 22 2. The operating and non-operating investments share pro-ratably any excess
23 investor-supplied funds.

1 **Q. Pursuant to the Agreement, please explain how Staff calculates ISWC.**

2 A. Start with NW Natural's total company balance sheet as of September 30, 2018, on
3 an average of monthly averages ("AMA") balance, and assign each account to one
4 of the following categories: (1) Current Assets; (2) Current Liabilities; (3) Average
5 Invested Capital; or (4) Total Investments. Those accounts categorized as
6 investment are sub-categorized as Washington, Oregon, or non-operating.

7 Once all accounts are categorized appropriately, total investments are
8 subtracted from average invested capital to determine whether or not the investors
9 have provided working capital to meet the day-to-day needs of the business. This
10 working capital amount is then allocated based on operating and non-operating
11 investment.

12 **Q. Did NW Natural calculate ISWC this way in its initial filing?**

13 A. No. First, the Company does not explicitly show how accounts are assigned,
14 making it difficult to follow and evaluate its methodology. Second, the Company
15 categorized a number of accounts in a manner that is inconsistent with Staff's
16 methodology. Third, the Company removed construction work in progress
17 ("CWIP") from non-operating investment when calculating the allocation of ISWC.

18 **Q. Does this Agreement resolve the differences between how Staff and the
19 Company calculates and allocate ISWC?**

20 A. Yes. Staff and the Company start out with AMA balances by sub-account and
21 assign each account to a category with the following in mind: construction work in
22 progress ("CWIP"), accounts that are not allowed for rate making (e.g.

1 Supplemental Executive Retirement Plan), and accounts that accrue interest for the
2 Company or customer (e.g. PGA) are all categorized as non-operating investment.

3 When allocating ISWC to Washington, Oregon, and non-operating
4 investment, CWIP shall remain in the non-operating investment category. This
5 results in a fair allocation factor to non-operating because CWIP is considered a
6 non-operating investment and earns its own return through allowance for funds
7 used during construction.

8 **Q. Does this Agreement of ISWC impact future filings?**

9 A. Yes. NW Natural files a commission basis report (“CBR”) each year. This report
10 starts with the year ended December 31 and includes adjustments allowed in the
11 Company’s last general rate case. Staff uses the CBR for a variety of purposes, one
12 of which is to measure earnings when analyzing decoupling filings. ISWC has a
13 material effect on earnings in the CBR. If earnings are understated because ISWC
14 is not calculated or allocated correctly, the Company will be able to keep decoupled
15 revenue that should be returned to customers.

16 **Q. What are your conclusions regarding the agreements on working capital?**

17 A. For the reasons I have stated, the Commission should accept the method in the
18 Agreement for calculating working capital:

- 19 • Reformat the ISWC calculation to explicitly show which category each
20 account is assigned to;
- 21 • Assign each account to the appropriate category;
- 22 • Allocate ISWC based on percentage of total average investment (CWIP
23 is part of non-operating investment for allocation purposes); and

- 1 • Calculate ISWC in this manner in all future filings, including the CBR.

2 **9. Other Issues**

3 **Q. Are there any other provisions of the Agreement you would like to discuss?**

4 A. Yes. Pursuant to the Agreement, NW Natural will perform an economic feasibility
5 study for special contracts and will track interruptible usage.

6 **Q: Why does Staff support a new economic feasibility study for special contracts?**

7
8 A: The Company has been unable to locate the original study. Since the contract has
9 been operating on a month-to-month basis for the last 20 years, an updated study is
10 needed to verify that the special contract rates continue to be fair, just, and
11 reasonable. Given the complexity involved, a three-year window to complete the
12 study is appropriate.

13 **Q: Why does Staff support tracking gas usage for interruptible customers?**

14
15 A: The Company has customers on interruptible sales and transportation schedules.
16 These customers may be asked to curtail gas usage for any number of reasons.
17 Based on the terms of the current tariffs, customers that use gas during a curtailment
18 may be subject to penalties. In order to properly apply penalties, the Company
19 needs to know which customers did not curtail usage and how much gas these
20 customers used. While the Company does currently track usage during
21 curtailments, the term is included in the Agreement to ensure the practice continues
22 and is consistent.

23 **10. Conclusion**

24 **Q. Does Staff fully accept the terms of the Agreement?**

1 A. Yes. Staff recommends that the Commission accept this Agreement in its entirety,
2 as being in the best interest of the ratepayers, satisfying the interests of Staff, and
3 reaching a result that is consistent with the public interest.

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

5 A. Yes.

C. Statement of Public Counsel (Sarah Laycock)

6 **Q. Ms. Laycock, on whose behalf are you testifying?**

7 A. I am testifying on behalf of Public Counsel.

8 **Q. What is the purpose of your testimony in this proceeding?**

9 A. I am testifying in support of the Settlement, filed in this docket on May 23, 2019.
10 My testimony will describe why Public Counsel believes the Settlement is in the
11 public interest.

12 **Q. Please generally describe why Public Counsel believes the Settlement is in the
13 public interest.**

14 A. This Settlement is the result of negotiations between all parties in this proceeding,
15 and as such, represents a reasonable compromise among the parties' positions.
16 Public Counsel believes that the resulting revenue requirement and other terms of
17 the Settlement are fair, just, reasonable, and in the public interest.

18 **Q. Please summarize the terms in the settlement that Public Counsel believes are
19 fundamental to the Settlement.**

20 A. Public Counsel supports all terms of the Settlement, but takes particular interest in
21 the following provisions:

- 1 • Cost of Capital: includes a capital structure of 49 percent equity and 50
2 percent long-term debt with 1 percent short-term debt, ROE of 9.40 percent,
3 cost of long-term debt at 5.066 percent, cost of short-term debt at 2.186
4 percent, and an overall ROR at 7.161 percent.¹⁰
- 5 • Miscellaneous adjustments: the agreed upon revenue requirement reflects
6 adjustments to allocation factors, revenue and gas costs, bonuses, payroll,
7 miscellaneous O&M adjustments, working capital, post-test year capital,
8 and non-plant EDIT.¹¹
- 9 • Rate spread will be applied on an equal percentage of margin increase with
10 a second adjustment within Rate Schedules 41 and 42.¹²
- 11 • Basic Charges: Residential Rate Schedule 1 will increase to \$5.50, and Rate
12 Schedule 2, to \$8.00.¹³
- 13 • Environmental remediation: Washington allocation rate of 3.32 percent for
14 remediation expense and 3.32 percent for insurance proceeds. Additionally,
15 expenses deferred prior to July 1, 2019, will be offset entirely with
16 insurance proceeds. Lastly, the Parties agree to an environmental cost
17 recovery mechanism (ECRM) for prudently incurred remediation expense,
18 which will be net of insurance proceeds and subject to a cap on annual
19 amortizations into rates.¹⁴

¹⁰ Agreement at 3.

¹¹ *Id.*

¹² *Id.* at 4.

¹³ *Id.*

¹⁴ *Id.* at 5.

- 1 • Tax issues related to the TCJA: provisions include instituting two separate
2 tariff riders to return to customers an interim period deferral benefit and
3 excess deferred income tax, and reflecting the lower tax rate in rates
4 collected on a going-forward basis.¹⁵
- 5 • Conservation provisions including adjusting the cost recovery mechanism
6 and establishing a plan to recover existing deferral balances.¹⁶
- 7 • Low-income bill assistance program that establishes an advisory group for
8 the GREAT program, lays out goals of the group, and includes a low-
9 income evaluation study to assess the need for low-income assistance
10 among the Company's Washington ratepayers.¹⁷

11 **Q. Does Public Counsel recommend approval of the Settlement?**

12 A. Yes. Public Counsel recommends that the Commission approve the Settlement as
13 it resolves most, but not all, issues in this docket, and is supported by all Parties to
14 this docket. The Settlement represents a compromise between all parties and is in
15 the public interest.

16 **Q. Please explain why Public Counsel supports the agreed upon revenue
17 requirement.**

18 A. In the Company's original application, NW Natural requested an increase of \$8.3
19 million to the current revenue requirement.¹⁸ Public Counsel supports the agreed
20 upon revenue requirement because it reduces the requested revenue requirement by

¹⁵ *Id.* at 7.

¹⁶ *Id.* at 8.

¹⁷ *Id.* at 12.

¹⁸ Direct Testimony of Kevin S. McVay, Exh. KSM-1T at 9.

1 \$3.16 million. Additionally, the parties agreed upon several adjustments that justify
2 the settled upon revenue requirement. Those include reductions to revenue and gas
3 costs, bonuses, payroll, miscellaneous O&M expenses, and working capital, as well
4 as adjustments to allocation factors, post-test year plant additions, and non-plant
5 EDIT. Public Counsel believes the resulting increase to the revenue requirement is
6 acceptable because the Settlement includes additional customer benefits, including
7 the recovery mechanism for environmental remediation costs, a low-income bill
8 assistance program, and a conservation program.

9 **Q. Please explain why Public Counsel agrees with the Cost of Capital in the**
10 **Settlement.**

11 A. Public Counsel supports the agreed upon capital structure of 49 percent equity, 50
12 percent long term debt, 1.0 percent short-term debt, ROE of 9.40 percent, and an
13 ROR of 7.161 percent. The Company initially proposed an ROE of 10.3 percent,
14 but settlement discussions resulted in a lower ROE of 9.40 percent and associated
15 capital structure.¹⁹ Public Counsel believes this result is a reasonable compromise
16 between the parties.

17 **Q. Please explain why Public Counsel supports the rate design and rate spread**
18 **terms in the Settlement.**

19 A. Public Counsel supports the rate design and rate spread terms because the
20 Settlement equitably spreads the rate increase across all rate schedules and limits
21 the impact on residential customers. For instance, the Company initially requested
22 to increase the customer charge for Residential Rate Schedule 1 by \$3.53 to \$7, but

¹⁹ Direct Testimony of Dr. Bente Villadsen, Exh. BV-1T at 3.

1 the Settlement minimizes the increase to \$2.03, resulting in a customer charge of
2 \$5.50.²⁰ The Company also requested a \$2.00 increase to the customer charge for
3 Residential Rate Schedule 2, but the Settlement minimizes the increase to \$1.00,
4 resulting in a customer charge of \$8.00.²¹ Public Counsel believes the incremental
5 increase to the basic charge is reasonable and acceptable for settlement purposes.

6 **Q. Please explain why Public Counsel supports the terms regarding**
7 **Environmental Remediation.**

8 A. Public Counsel supports the terms regarding Environmental Remediation because
9 the Settlement reduces the impact of remediation costs on customers and protects
10 customers from rate shock associated with future remediation costs. Additionally,
11 the Settlement excludes all remediation costs incurred prior to January 26, 2011,
12 which were originally requested by the Company. It is Public Counsel's view that
13 the Settlement's treatment of these costs is consistent with the Commission's Order
14 No. 01 in Docket UG-110199, which held that costs incurred prior to January 26,
15 2011 were not eligible for deferred accounting treatment.²²

16 **Q. Please explain why Public Counsel supports the TCJA adjustments.**

17 A. The Settlement is consistent with previous Commission orders and ensures that
18 customers receive the benefits of the TCJA. Customers will be receiving an interim
19 period deferral benefit and excess deferred income tax through two separate tariff

²⁰ Direct Testimony of Ronald J. Amen, Exh. RJA- 1T at 38.

²¹ *Id.*

²² *In re Northwest Natural Gas Company for an Accounting Order Authorizing Deferred Accounting Treatment of Certain Costs Associated with Environmental Remediation*, Docket UG-110199, Order No. 01 at 2 (June 30, 2011).

1 riders. Additionally, the Company has agreed that the non-plant EDIT will be set
2 to zero, therefore, the Company will not collect the initially proposed amount of
3 \$32,000 per year for ten years from customers.²³

4 **Q. Please explain why Public Counsel supports the agreed upon provisions of the**
5 **Low- Income Bill Assistance Program?**

6 A. Public Counsel believes implementation of an advisory group for the GREAT
7 program will result in robust discussion and ideas around ways to improve NW
8 Natural's low-income program. Public Counsel also believes that the explicit
9 adoption of goals, required deadlines, and action plans for the advisory group will
10 assist in maintaining oversight of this important program. Public Counsel supports
11 the study to assess needs for low-income assistance and weatherization among
12 Washington customers, as it will help identify ways to improve the GREAT
13 program, and provide useful information to stakeholders in making decisions
14 regarding funding and program elements. The costs stemming from the study will
15 not be recovered from customers.

16 **Q. Please discuss why Public Counsel supports the energy conservation**
17 **provisions.**

18 A. Public Counsel believes the energy conservation provisions of the Settlement
19 significantly enhance NW Natural's conservation efforts by adding structure and
20 accountability. Public Counsel also supports the four-year amortization period of
21 the deferral balance, as we believe it is sufficiently long enough to reduce rate
22 shock.

²³ Direct Testimony of Sean R. Borgerson, Exh. SRB-1T at 21.

1 **Q. The Settlement is a partial settlement. What outstanding issue is not**
2 **addressed by the Settlement?**

3 A. The Settlement does not include terms regarding the Company's decoupling
4 mechanism. NW Natural, Staff, AWEC, and TEP entered into a Partial Multi-Party
5 Settlement Agreement on Decoupling. Public Counsel is not a signatory to the
6 decoupling settlement. Public Counsel does not support the Revenue-Per-
7 Customer (RPC) approach that NW Natural proposed.²⁴ Public Counsel Witness,
8 Scott Rubin, will be providing opposition testimony further explaining Public
9 Counsel's position on the Company's decoupling mechanism.

10 **Q. How does the remaining litigated issue effect the reasonableness of the**
11 **Settlement?**

12 A. The Settlement is reasonable on a stand-alone basis. The revenue requirement and
13 additional provisions set by the Settlement represent a reasonable compromise
14 between the Parties' positions and are not dependent upon the outcome of the
15 litigation on the remaining decoupling issue.

16 **Q. Why does Public Counsel believe the Settlement is in the public interest?**

17 A. The Settlement is the result of negotiations and compromise among the settling
18 parties. Provisions agreed upon such as those in regards to the ECRM,
19 conservation, and low-income provide benefits to customers that may not have been
20 achieved outside of a negotiated settlement agreement. Additionally, the
21 Settlement results in a total revenue requirement that will have a lower impact on
22 customers than the Company's original request, but that still allows the Company

²⁴ See Direct Testimony of Kyle T. Walker, Exh. KTW-1T at 11.

1 to collect the funds necessary to provide safe and reliable service to customers.
2 Public Counsel's concerns have been addressed such that we are satisfied that the
3 Settlement is in the public interest.

4 **Q. What is Public Counsel's overall recommendation?**

5 A. Public Counsel recommends that the Commission approve the Settlement in its
6 entirety.

7 **Q. Does this complete your testimony on behalf of Public Counsel?**

8 A. Yes.

D. Statement of AWEC (Bradley G. Mullins)

9 **Q. Please explain why the Agreement satisfies the interests and concerns of**
10 **AWEC.**

11 A. Based on its review of NW Natural's filing and through the discovery process,
12 AWEC was most concerned with NW Natural's requested ROE, several revenue
13 requirements adjustments, the impacts of the TCJA, and rate spread and rate design.
14 Although the Agreement does not incorporate all of the issues AWEC planned to
15 address in testimony, it does incorporate many of AWEC positions. Accordingly,
16 the overall result is fair and provides a significant benefit to customers.

17 **Q. Please explain why AWEC believes the Agreement is in the public interest.**

18 A. AWEC believes the Agreement is in the public interest and recommends the
19 Commission approve the settlement because the best interests of NW Natural's
20 natural gas customers are served by the underlying fair compromise on ROE,
21 certain revenue requirement and rate spread and design issues. Furthermore, the
22 Agreement also includes resolution of issues related to the TCJA. While the

1 signing parties may each hold different positions on the individual components of
2 NW Natural's natural gas revenue requirement addressed in the Agreement, AWEC
3 supports the Agreement because it has decreased the original gas revenue
4 requirement increase of \$8.3 million by \$3.16 million—which results in a revenue
5 requirement increase of \$5.14 million, before consideration of the impacts of the
6 TCJA. AWEC supports this Agreement as an overall result that is a fair
7 compromise between NW Natural and its customers.

8 AWEC also finds the Agreement to be in the public interest as the spread
9 of the gas rate increase is done on an equal percent of margin basis, which is an
10 appropriate outcome based on the cost of service collaborative that will address cost
11 of service issues in Washington. AWEC also believes it is in the public interest to
12 perform a second adjustment within Schedule 41 and 42 so that sales and
13 transportation margin rates in those two rate schedules receive the same percentage.

14 For the reasons set forth above, AWEC believes the Agreement is in the
15 public interest and should be approved by the Commission.

16 **Q. Does this complete your testimony on behalf of AWEC?**

17 A. Yes.

E. Statement of The Energy Project (Shawn M. Collins)

18 **Q. Mr. Collins, please state on whose behalf you are testifying.**

19 A. I am testifying for TEP, an intervenor in this proceeding, on behalf of the
20 Community Action Partnership (CAP) organizations that provide low-income
21 energy efficiency and bill payment assistance for customers in NW Natural's
22 service territory. These agencies include Clark County Community Action

1 Agency, the Washington Gorge Action Program, and Community Action Council
2 of Lewis, Mason, and Thurston Counties who recently began providing Low
3 Income Weatherization services in Klickitat and Skamania Counties.

4 **Q. Could you please summarize the purpose of your testimony?**

5 A. The purpose of my testimony is to provide support for approval of the Joint
6 Settlement Agreement (Agreement) filed in this docket on May 23, 2019. My
7 testimony focuses on the elements of the settlement that impact low-income
8 populations within NW Natural's service territory and explains why TEP believes
9 the settlement is in the public interest.

10 **Q. Can you provide an overview of the key elements of the Agreement that are**
11 **beneficial from a low-income customer perspective?**

12 A. The Agreement includes several elements which benefit low-income customers.
13 These include:

- 14 • Establishment of an Advisory Group for the Gas Residential Energy
15 Assistance Tariff (GREAT) program.
- 16 • A schedule of initial meetings for the GREAT Advisory Group.
- 17 • Adoption of goals for the Advisory Group.
- 18 • An agreement that the Advisory Group will present an Action Plan to
19 improve the GREAT program by July 1, 2020.
- 20 • A low-income needs assessment evaluation, the costs of which will not be
21 recovered from ratepayers.

22 **Q. Please describe why TEP supports the creation of an Advisory Group for the**
23 **GREAT program.**

1 A. The Energy Project has supported the creation of advisory groups for the bill
2 assistance and weatherization programs for all of Washington's regulated utilities.
3 Such committees have proven beneficial in providing a forum for productive
4 ongoing collaboration among stakeholders as a means to address operations issues,
5 customer needs, and potential program changes and improvements. Similar bill
6 assistance advisory committees have been established for Avista, Cascade Natural
7 Gas, and Puget Sound Energy. The settlement of NW Natural's last general rate
8 case in 2008 provided for a temporary working group to develop the initial GREAT
9 program, which was implemented in 2009. The working group did not continue
10 over the intervening years and this case, the first general rate case since the 2008
11 settlement, provides an appropriate opportunity to establish a permanent Advisory
12 Group.

13 **Q. Please explain the other settlement terms related to the GREAT Advisory**
14 **Group.**

15 A. The settlement agrees to a set of goals for the Advisory Group. These are:

- 16
- 17 • To keep customers connected to natural gas service;
 - 18 • To provide assistance to more customers than are currently served;
 - 19 • To lower the energy burden of GREAT program participants; and
 - 20 • To collect data necessary to assess GREAT program effectiveness and
to inform policy discussions.

1 These goals provide an overall framework and guidance for the Advisory Group's
2 work and are consistent with the goals adopted for the Advisory Groups of other
3 Washington regulated utilities.²⁵

4 The settling parties have agreed that the initial project for the Advisory
5 Group is the development of an action plan to improve the GREAT program, to be
6 presented by July 1, 2020. To facilitate this, the settlement also agrees to a specific
7 schedule of dates for establishing the Advisory Group and for its initial meetings to
8 ensure that work begins promptly.

9 Finally, the settlement also provides for a low-income evaluation study to
10 assess the need for low-income bill assistance and for low-income weatherization.
11 This study will help identify ways to improve the GREAT program, consistent with
12 the set of goals listed above. Low-income needs assessments have been put in place
13 for Cascade, Puget Sound Energy, and Avista.²⁶ Such studies have been very useful
14 to the companies, stakeholders and the Commission in making policy decisions
15 about funding and program design. Now that NW Natural's GREAT program has
16 been in place for 10 years, the timing is good for a study to assist the Company and
17 the new Advisory Group. The costs of the evaluation study will not be recovered
18 from NW Natural ratepayers.

²⁵ See, e.g., *Washington Utilities & Transportation Commission v. Avista*, Dockets UE-150204/UG-150205 (Avista 2015 GRC), Order 05 ¶ 223 (outlining these goals).

²⁶ *Washington Utilities & Transportation Commission v. Cascade Natural Gas*, UG-152286, Order 04, ¶ 10; *In the Matter of the Joint Application of PSE 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 **Q. Are there other aspects of the Joint Settlement Agreement that you wish to**
2 **address?**

3 A. Yes. The agreement to limit the size of the overall rate increase to a significantly
4 lower level than the initial request is a tangible benefit of the settlement, particularly
5 for low-income customers. An important aspect of this is that the Company's return
6 on equity (or shareholder profit margin) was not increased to 10.3 percent as
7 requested, but was instead reduced from its 10-year old level of 10.1 percent to 9.4
8 percent, a more reasonable level under current conditions.

9 Another term of the Joint Settlement important to The Energy Project is the
10 agreement on rate design and rate spread. The Energy Project seeks to avoid
11 excessive customer charges due to their disproportionate impact on low-income
12 customers, particularly on low-volume users, and because high customer charges
13 undermine incentives to conserve. In this case, the parties have agreed to smaller-
14 than-proposed increases for residential customer charges: a \$1.00 increase to \$8.00
15 per month for Schedule 2 residential customers, and a \$2.03 increase to \$5.50 for
16 Schedule 1 residential customers. These changes represent reasonable
17 compromises in settlement which will mitigate the negative impact of the proposed
18 increases. In addition, spreading the total revenue requirement increase on an equal
19 percent of margin across all rate schedules is a fair approach which avoids unduly
20 burdening the residential class.

21 Additionally, The Energy Project agrees to the Energy Conservation
22 provisions in the Agreement with the understanding that they are not intended to
23 affect the operations of the low-income weatherization program.

1 **Q. Does TEP recommend approval of the Agreement?**

2 A. Yes, for the reasons discussed in my testimony, The Energy Project believes that
3 the Agreement is in the public interest and joins the other parties in recommending
4 approval by the Commission.

5 **Q. Does this complete your testimony on behalf of The Energy Project?**

6 A. Yes.

V. CONCLUSION

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

8 A. The Agreement represents a negotiated compromise among the Parties. Thus, the
9 Parties agree that no particular Party shall be deemed to have approved the facts,
10 principles, methods, or theories employed by any other in arriving at these
11 stipulated provisions. In addition, the Parties have the right to withdraw from the
12 Agreement if the Commission makes any additional material conditions or rejects
13 any material part of the Agreement.

14 **Q. In conclusion, why is the Agreement “in the public interest?”**

15 A. This Agreement should be approved for the following reasons:

16 (1) The Agreement strikes a reasonable balance between the interests of the
17 Company and its customers, including its low-income customers. As such, it
18 represents a reasonable compromise among differing interests and points of view.

19 (2) The Company’s original filing in this case has been subjected to great
20 scrutiny through the discovery process: over five months have passed since the case
21 was filed, Staff, the Public Counsel and AWEC have propounded 378 data requests

1 on NW Natural and the Company has responded to the data requests consistent with
2 the Commission's procedural schedule in Order 03 of this proceeding.

3 (3) All the Parties have been afforded ample opportunity to participate
4 meaningfully in the settlement process and the exchange of information. All Parties
5 participated fully and comprehensively in the settlement conference and
6 negotiations, leading to the Agreement presented now for the Commission's
7 consideration.

8 (4) Any settlement, including the Agreement, reflects a compromise and is
9 the result of the give-and-take inherent in negotiations. In this case, the result of the
10 Parties' extensive settlement negotiations produces the Agreement, supported by
11 sound analysis and sufficient evidence, for the Commission's consideration. All the
12 Parties agree that Commission approval of the Agreement would be "in the public
13 interest" and would satisfy the requirement that rates be fair, just, reasonable, and
14 sufficient.

15 **Q. What action do the Parties recommend the Commission take with respect to**
16 **the Agreement?**

17 A. The Parties recommend that the Commission find that the Agreement is in the
18 public interest and would produce rates for the Company that are fair, just,
19 reasonable, and sufficient. Accordingly, the Parties recommend that the
20 Commission adopt the Agreement in its entirety.

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

22 A. Yes.