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September 14, 2018

VIA ELECTRONIC FILING

Attention: Filing Center
Public Utility Commission of Oregon
201 High Street SE, Suite 100
P.O. Box 1088
Salem, Oregon 97308-1088

**Re: Docket UG 344 – NW Natural Gas Company, dba NW Natural, Request for a
General Rate Revision**

Attention Filing Center:

Attached for filing in the above-referenced docket is an electronic copy of the Joint Testimony in Support of the All-Party Partial Stipulation. The All-Party Partial Stipulation was entered into between Northwest Natural Gas Company, Commission Staff, the Oregon Citizens' Utility Board, and the Alliance of Western Energy Consumers, and was filed with the Public Utility Commission of Oregon on August 6, 2018.

Please contact this office with any questions.

Sincerely,

Alisha Till
Legal Assistant

Attachment

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 344

Joint Testimony in Support of Stipulation

Stipulating Parties: NW Natural Gas Company d/b/a NW Natural, Public Utility
Commission of Oregon Staff, the Oregon Citizens' Utility Board, and the Alliance of
Western Energy Consumers

STIPULATING PARTIES EXHIBIT 100

**Joint Testimony of Kevin McVay, Marianne Gardner,
Bob Jenks, and Bradley G. Mullins**

September 14, 2018

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1 the Company's pension balancing account and how to deal with pension expenses going
2 forward; 2) the sharing of revenues produced by optimization of certain NW Natural assets
3 and the Company's Interstate Storage operations; 3) Excess Deferred Federal Income
4 Taxes in the test period; and, 4) amortization of the Interim Period tax savings deferred
5 over the period January 1, 2018 through the November 1, 2018 rate effective date.

6 **II. BACKGROUND ON DOCKET NO. UG 344**

7 **Q. Please summarize the background and context of Docket No. UG 344.**

8 A. On December 29, 2017, NW Natural initiated this proceeding, Docket No. UG 344, by filing
9 a request for a general rate increase (Initial Filing). In its Initial Filing, NW Natural
10 requested a revision to customer rates that would increase the Company's annual Oregon
11 jurisdictional revenues from base rates by \$52.4 million, or an approximately 8.3 percent
12 increase over current customer rates. The Company's original request would result in a
13 in a 14.99 percent margin increase to rates.

14 On March 20, 2018, the Company filed supplemental direct testimony regarding
15 updates to the Company's requested revenue requirements that accounted for some of
16 the impacts of the 2017 federal Tax Cuts and Jobs Act on the Company's tax expense
17 during the test year and corrected its depreciation expense to conform to the depreciation
18 study approved by the Commission on January 5, 2018 in Docket No. UM 1808 (the
19 Supplemental Filing). The impact of these revisions was to reduce the requested revenue
20 increase from base rates to \$37.8 million.

21 The Company developed the case using the test year comprised of the twelve
22 months ending October 31, 2019 (Test Year), and a historical base year of the twelve
23 months ending December 31, 2017 (Base Year). Administrative Law Judge Allan J. Arlow

1 convened a prehearing conference on February 1, 2018. In accordance with the
2 prehearing conference order, the effective date for rates will be November 1, 2018.

3 **Q. Have the parties conducted discovery in this case?**

4 A. Yes. Since the Initial Filing, NW Natural has responded to at least 400 data requests from
5 Staff, CUB, and AWEC, and has provided updates to its data responses during the
6 pendency of this case.

7 **Q. Did Staff, CUB and AWEC propose adjustments to NW Natural's Initial Filing?**

8 A. Yes, these parties each filed opening testimony on April 20, 2018, in which they proposed
9 adjustments to NW Natural's proposed revenue requirement.¹

10 **Q. Please describe the process that followed.**

11 A. The parties convened an initial settlement conference on April 30, 2018. NW Natural filed
12 its reply testimony on May 23, 2018. In its reply testimony (Reply Filing), the Company
13 provided corrections and updates to its Initial Filing and responded to the testimony of
14 Staff, CUB and AWEC. The Stipulating Parties convened a second settlement conference
15 on May 30-31, 2018. As a result of those discussions, the Stipulating Parties made
16 progress towards settlement of the issues presented in the Stipulation. The Stipulating
17 Parties convened a final settlement conference on June 12, 2018 and reached a
18 settlement of all issues presented in the Stipulation. The Stipulation memorializes the
19 Stipulating Parties' agreements reached at the June 12, 2018 settlement conference.

¹ Staff, CUB, and AWEC also filed opening testimony regarding revenue sharing associated with the Company's optimization activities on May 4, 2018. This issue continues to be litigated by the Stipulating Parties.

Table 1 – Summary of Settlement of Revenue Requirement Adjustments

Company Supplemental Filed General Rate Case Required Change to Revenue Requirement		\$37.8 million
Issue No.	Adjustment	Revenue Requirement Effect
1	ROE at 9.400%	(\$5,127,000)
2	Miscellaneous Revenues	(\$70,000)
3	Promotions & Concessions, Advertising, Miscellaneous Administrative and General, and Affiliated Interests	(\$3,401,000)
4	Director and Officer Insurance	(\$196,000)
5	Fee-Free Bankcard	(\$185,000)
6	Meals, Entertainment, Gifts and Travel	(\$936,000)
7	Wages and Salaries	(\$6,171,000)
8	Gas Storage	(\$16,000)
9	Plant Maintenance	(\$41,000)
10	Distribution	(\$206,000)
11	Customer Accounts	(\$103,000)
12	Memberships, Dues and Donations	(\$191,000)
13	Stock Issuance Costs	(\$1,233,000)
14	Property Tax	(\$152,000)
15	Oregon Department of Energy Fees	(\$20,000)
16	Research and Development Fees	(\$22,000)
17	Plant-Test Year Capital Expenditures	(\$3,719,000)
18	Customer Deposits	(\$27,000)
	Total adjustments	(\$21,816,000)
	Incremental Revenue Requirement	\$16,000,000

1 **Q. Do the Stipulating Parties agree on all the methodologies employed to determine**
2 **each adjustment?**

3 A. No, the Stipulating Parties may not necessarily agree upon the all the methodologies used
4 to determine each adjustment included in the Stipulation. However, the Stipulating Parties
5 believe that all the agreed-upon adjustments represent a reasonable financial settlement
6 of the majority of the issues in this docket, and that, taken together, the adjustments result

1 in an overall revenue requirement that will produce rates that are fair, just, and reasonable.

2 As such, the Stipulating Parties agree that this Stipulation is in the public interest.

3 **Q. On what date do the Stipulating Parties agree that rates resulting from this rate case**
4 **should go into effect?**

5 A. NW Natural will file rate schedules as a compliance filing in Docket No. UG 344, reflecting
6 the revenue requirement adjustments in the Stipulation and the resolution of the remaining
7 issues that are being litigated, effective November 1, 2018.

8 ***Issue Nos. 1 and 13: Return on Equity, Stock Issuance Costs, and Cost of Capital***

9 **Q. Please describe the Stipulation regarding NW Natural's return on equity (ROE),**
10 **stock issuance costs, and cost of capital.**

11 A. NW Natural's Initial Filing proposed a rate of return (ROR) of 7.62 percent, which was
12 based on a 50.0 percent common equity ratio and 50.0 percent long-term debt capital
13 structure, with a proposed Return on Equity (ROE) of 10.0 percent and a long-term debt
14 cost of 5.233 percent. The proposed ROE of 10 percent was argued as reasonable by
15 the Company's expert witness, Bente Villadsen.² In addition, NW Natural proposed to
16 recover stock issuance costs of \$1.2 million based on a three-year amortization of its most
17 recent experienced costs.³ NW Natural also provided testimony on the impact of ROE to
18 the Company's revenue requirement from witness Kevin S. McVay.⁴

19 Staff provided substantial independent analysis of NW Natural's proposal
20 regarding cost of capital, and supported the Company's proposed capital structure and
21 cost of long-term debt, but proposed an ROE of 9.0 resulting in an adjusted ROR of 7.12

² NW Natural/400, Villadsen/46.

³ NW Natural/1500, McVay/28.

⁴ NW Natural/200, McVay/6-7.

1 percent.⁵ Staff provided testimony regarding its ROE and stock issuance cost adjustments
2 from Matthew Muldoon. Through Mr. Muldoon's testimony, Staff argued that its proposed
3 reduction of the Company's ROE to 9.0 percent was within a reasonable range of 8.7 to
4 9.3%. Staff also proposed to exclude stock issuance costs as a separate revenue
5 requirement item.

6 After full discussions at settlement conferences, the Stipulating Parties agreed to
7 an ROE of 9.400 and further agreed that the Company would not recover stock issuance
8 as a separate revenue requirement item. This compromise on these items results in a
9 reduction to revenue requirement of \$6,360,000.⁶

10 **Q. Why are the agreed-to cost of capital, ROE and stock issuance costs reasonable?**

11 A. The capital structure of 50 percent equity and 50 percent debt is based upon NW Natural's
12 actual capital structure, and was approved in its last rate case as well. The 50/50 structure
13 reflects both NW Natural's actual and projected capitalization, as well as its target
14 capitalization for the utility, and is supported by Staff. Staff also thoroughly analyzed the
15 cost of long-term debt and accepted the Company's proposed cost of long-term debt of
16 5.233 percent.⁷ The ROE and treatment of stock issuance costs represent a compromise
17 between the modeling performed by the Company's expert witness and Staff resulting
18 from extensive discussions during the settlement process. This compromise falls within
19 the range of reasonable ROE and ROE impacts analyzed by the Stipulating Parties⁸ and
20 therefore is fully supported and appropriate.

⁵ Staff/200, Muldoon/2-3.

⁶ Stipulation at 5, 6.

⁷ Staff/200, Muldoon/52.

⁸ See, e.g., NW Natural/400, Villadsen/46 (*stating* that the range of reasonable ROEs is from 9.4% to 10.8%).

1 As a result, the Stipulating Parties have agreed that the resulting cost of capital
2 with an overall Rate of Return (ROR) of 7.317 percent is a reasonable resolution of this
3 issue and is supported by the Stipulating Parties' analysis.

4 **Issue No. 2: Miscellaneous Revenues**

5 **Q. Please describe the Stipulation regarding miscellaneous revenue.**

6 A. NW Natural's Initial Filing included miscellaneous revenues calculated using a three-year
7 average (October 2014 through September 2017); although if the amounts for a particular
8 category were trending upward or downward, the most recent year was used as
9 representative for the Test Year forecast.⁹ The Company used the twelve months ending
10 September 2017 as a proxy for the base year due to data availability when the Initial Filing
11 was finalized.¹⁰ For one category, a rental property, the Company did not include
12 revenues because the rental agreement for this property has been discontinued.¹¹

13 Staff recommended that all miscellaneous revenue be calculated using actual
14 2017 base year data, and therefore proposed a \$512,000 reduction to the revenue
15 requirement.¹²

16 The Company did not agree that Staff's proposed adjustment was necessary
17 because using the proposed adjustment resulted in an immaterial change to the revenue
18 requirement (i.e., a change of only \$66,183). In addition, the Company determined that
19 Staff's calculation of its proposed adjustment from the 2017 base year included three
20 months of 2016 resulting in the inclusion of 15 months of data rather than 12 months.¹³

⁹ See NW Natural/1500, McVay/12.

¹⁰ NW Natural/200, McVay/11.

¹¹ NW Natural/1500, McVay/14-15.

¹² Staff/400, Anderson/19; see also Staff/100, Gardner/4.

¹³ NW Natural/1500, McVay/13.

1 The Company also presented additional support for its argument that revenues associated
2 with a rental agreement that has been discontinued should not be included in the revenue
3 requirement.

4 As a result of their settlement discussions, the Stipulating Parties have applied an
5 adjustment that accepts Staff's adjustment to include calendar 2017 data but corrects
6 Staff's calculation error, and also affirms that the revenue associated with a Company
7 property not expected to produce any revenue should not be included. This adjustment
8 results in a reduction to the revenue requirement of \$70,000.

9 **Q. Please explain why the Stipulating Parties' agreement regarding miscellaneous**
10 **revenue is reasonable.**

11 A. The agreed upon methodology for deriving the appropriate level of test period
12 miscellaneous revenues corrects errors identified in the Staff's proposed adjustment while
13 also incorporating actual data from 2017 that became available after the Initial Filing.
14 Parties found this adjustment to reasonably forecast the amount of miscellaneous revenue
15 for the Test Year revenue requirement. The Stipulating Parties agree that, in the context
16 of an overall settlement, the amount of the adjustment related to miscellaneous revenue
17 is reasonable.

18 ***Issue No. 3: Promotions & Concessions, Advertising, Miscellaneous Administrative &***
19 ***General, and Affiliated Interests***

20 **Q. Please describe the agreement in the Stipulation regarding these four categories of**
21 **costs.**

22 A. The Stipulating Parties applied an adjustment to these categories of costs that represents
23 a compromise between the Company's Initial Filing and Staff's recommendations. Staff
24 proposed reductions to the Company's proposed revenue requirement related to each of

1 these cost categories totaling \$14,754,000.¹⁴ The proposed reductions were based on
2 the following Staff recommendations:

3 • Promotions and concessions: Staff recommended a reduction to the costs
4 associated with promotions and concessions based on its assertion that certain
5 costs categorized as advertising expense were actually promotional activity
6 expenses.¹⁵ Staff also argued that the Company's proposal to recover promotion
7 and concession costs from ratepayers conflicted with the Company's assertions in
8 other Commission proceedings.¹⁶ The total recommended reduction to revenue
9 requirement associated promotions and concessions was \$4,425,000.

10 • Advertising: Staff recommended a reduction to the Company's advertising
11 expense based on Staff's determination that the Company had not properly
12 classified its advertising expense pursuant to the requirements of OAR 860-026-
13 0022.¹⁷ The total recommended reduction to revenue requirement associated with
14 Staff's proposed re-categorization of advertising expense was \$412,000. CUB
15 also raised concerns regarding the Company's advertising expense
16 recommending a disallowance based on CUB's argument that use of television is
17 ineffective and that certain advertising campaigns have not been successful.¹⁸
18 CUB recommended a disallowance of \$843,500 based on those assertions.¹⁹

19 • Miscellaneous A&G: Staff proposed a reduction to the Company's costs in FERC
20 Accounts 921-935; specifically, Staff proposed to calculate these costs using 2013

¹⁴ Staff/100, Gardner/3-4.

¹⁵ Staff/400, Anderson/14.

¹⁶ Staff/400, Anderson/13-14.

¹⁷ Staff/400, Anderson/3-12.

¹⁸ CUB/100, Jenks-Gehrke/15-16.

¹⁹ CUB/100, Jenks-Gehrke/15-16.

1 as the base year and to escalate the 2013 costs using both the All Urban CPI and
2 customer growth (with the exception of FERC Accounts 930 and 931 for which
3 Staff found no customer growth correlation).²⁰ Finally, Staff proposed to exclude
4 regulatory commission expense based on its determination that no historical
5 actuals existed for these costs.²¹The total recommended reduction to revenue
6 requirement associated with this calculation for miscellaneous A&G was
7 \$4,218,000.

- 8 • Affiliated interests: Staff proposed reductions to the revenue requirement based
9 on recommendations to (a) charge a higher billing rate to affiliates; (b) allocate
10 more time to activities related to the Holding Company; (c) allocate more officer
11 time to affiliates; (d) capture additional costs in amounts charged to non-regulated
12 affiliates; (e) allocate a greater percentage of insurance premium costs to affiliates;
13 (f) allocate a greater proportion of website costs to non-utility entities; and (g)
14 remove from the Test year costs associated with the legal costs for the North Mist
15 Expansion Project and civic expenses (in their entirety) and the costs related to
16 shareholder and investor relations expense (by fifty percent).²² The total
17 recommended reduction to the revenue requirement associated with these
18 affiliated interest costs was \$5,699,000.

19 The Company did not agree with these proposed adjustments to the Company's
20 proposal and presented the following arguments in its reply testimony:

²⁰ Staff/100, Gardner/27-28.

²¹ Staff/100, Gardner/27-28.

²² See Staff/700, Kaufman/49-62.

- 1 • Promotions and Concessions: The Company argued that the activities
2 included in FERC accounts 911, 912, and 913 contain costs for activities that
3 are prudent utility costs.²³ For example, expenses related to customer service,
4 outreach, and education (as included in these accounts) are an integral part of
5 the service provided by NW Natural and should be recoverable in rates. The
6 Company also argued that there are customer benefits associated with its
7 marketing activities because customer growth spreads fixed system costs to a
8 larger group of customers.²⁴
- 9 • Advertising: The Company argued that it has properly categorized its
10 advertising expenses and further that all such expenses are appropriately
11 recovered from customers as part of the Company's broad education
12 program.²⁵ The Company also questioned the Staff's recommended
13 disallowance that used Base Year amounts instead of the Test Year
14 amounts.²⁶ Finally, the Company argued that its advertising expense is in line
15 with the spending on a per-customer basis of other Oregon utilities.²⁷
- 16 • Miscellaneous A&G: The Company did not agree with Staff's proposed
17 adjustments for several reasons. First, the Company believed that use of 2013
18 as the proposed "base year" instead of the Company's selected Base Year
19 (2017) was inappropriate because 2013 does not provide an accurate
20 representation of the costs currently being incurred by the Company.²⁸ The

²³ NW Natural/2300, Frankel/3.

²⁴ NW Natural/2300, Frankel/10.

²⁵ NW Natural/2100, Heiting/8.

²⁶ NW Natural/2100, Heiting/8.

²⁷ NW Natural/2100, Heiting/8.

²⁸ NW Natural/1700, Moncayo/9.

1 Company also disagreed with Staff's proposal to use the All Urban CPI instead
2 of the Portland Salem CPI arguing that the Portland Salem CPI is more
3 representative of the costs actually incurred by the Company due to factors
4 that are unique to the Company's service area.²⁹ Also related to the escalation
5 factor, the Company did not agree with Staff's proposal to apply the All Urban
6 CPI to certain categories of costs where the Company was able to identify
7 known and measurable changes (e.g., contractual cost increases for costs
8 including leases) because this proposal would have favored an estimate in lieu
9 of actual costs, reducing the accuracy of the Test Year cost forecast. Finally,
10 the Company asserted that it had supported the rate case expense included in
11 FERC Account 928 based on historical or actual costs.³⁰

- 12 • Affiliated Interests: In response to the proposals by Staff to increase the costs
13 allocated to the Company's affiliates, the Company presented substantial
14 supporting evidence for its allocation policies and procedures.³¹ Relying on
15 this supporting evidence, the Company argued that it has appropriate affiliate
16 policies in place and that such policies are adhered to by the Company. For
17 example, the Company presented its policy for executive tracking of non-utility
18 time, including training presentations, and explained how Staff's analysis of
19 this cost misinterpreted the Company's approach.³²

²⁹ NW Natural/1700, Moncayo/12-16.

³⁰ NW Natural/1700, Moncayo/23.

³¹ NW Natural/1700, Moncayo/49-73; see also, e.g., NW Natural/1710, NW Natural/1711, and NW Natural/1712.

³² NW Natural/1700, Moncayo/55-59; see also NW Natural/1712.

1 After a discussion of the Parties' respective arguments, the Parties agreed upon a
2 compromise adjustment of \$3,306,000 to the revenue requirement, which reflects
3 adoption of some of Staff's suggestions and also includes corrections to errors identified
4 during discovery and testimony.

5 **Q. Please explain why the Stipulating Parties' agreement regarding promotions &**
6 **concessions, advertising, miscellaneous administrative & general costs, and**
7 **affiliated interests are reasonable.**

8 A. The Stipulating Parties do not agree on all aspects of the methodology used to derive the
9 appropriate level of these categories of costs for the Test Year but do agree that this
10 adjustment (a reduction of \$3,306,000 in expense) resulting in a revenue requirement
11 reduction of \$3,401,000 is reasonable and appropriate. The Stipulating Parties have
12 further determined that this reduction contributes to the overall fair resolution of this case.

13 ***Issue No. 4: Director and Officer Insurance***

14 **Q. Please describe the Stipulating Parties' agreement regarding director and officer**
15 **insurance expense.**

16 A. The Company's Initial Filing proposed to include its total Oregon-allocated director and
17 officer (D&O) insurance expense based on actual premium amounts. Staff proposed that
18 the allocations associated with director and officer insurance premiums be adjusted such
19 that D&O insurance costs would be shared equally between shareholders and ratepayers;
20 based on this recommendation, Staff proposed a reduction to revenue requirement of
21 \$257,000.³³ The Stipulating Parties agreed to a reduction of \$191,000 to expense to
22 reflect the removal of 50 percent of the Oregon-allocated expense associated with D&O

³³ Staff/600, Gibbens/2-3.

1 insurance, which is a compromise between the Company's Initial Filing and Staff's
2 proposal resulting in a reduction to revenue requirement of \$196,000.³⁴

3 **Q. Why is the Stipulating Parties' agreement regarding director and officer insurance**
4 **expense reasonable?**

5 A. The Stipulating Parties do not necessarily agree with Staff's proposal for equal sharing of
6 these costs between shareholders and ratepayers; however, the Stipulating Parties have
7 agreed that this revenue requirement reduction is reasonable and will contribute to the fair
8 resolution of this matter.

9 ***Issue No. 5: Fee-Free Bank Card Costs***

10 **Q. Please describe the Stipulation regarding fee-free bankcard costs.**

11 A. In its Initial Filing, NW Natural included costs associated with increased adoption of its fee-
12 free bankcard program that was previously approved by the Commission in Docket No.
13 UG 221 (the Company's last general rate proceeding). The Company's forecast for the
14 Test Year was based on historical trends and indicates that the Company's view is that
15 the adoption rate will continue to increase.³⁵

16 Staff proposed adjustments to these costs, including a reduction to reflect Staff's
17 estimation of savings related to adoption of the program and also a lower projected
18 adoption rate for the Test Year.³⁶ Based on these adjustments, Staff proposed a total
19 reduction of \$690,000 to the proposed revenue requirement.³⁷ While the Company did
20 not agree with Staff's proposed total adjustment, the parties agreed that it was appropriate

³⁴ Stipulation at 4.

³⁵ NW Natural/1700, Moncayo/75.

³⁶ Staff/500, Boyle/6-7.

³⁷ Staff/500, Boyle/7; see also Staff/100, Gardner/4.

1 to include some level of savings resulting from the program, and therefore agreed to a
2 reduction to the revenue requirement of \$185,000.³⁸

3 **Q. Why is the Stipulating Parties' agreement regarding fee-free bankcard program**
4 **costs reasonable?**

5 A. The Stipulating Parties' do not necessarily agree regarding how the adoption rate for the
6 fee free program or associated savings should be calculated; however, the Stipulating
7 Parties do agree that this adjustment which reflects some level of savings associated with
8 adoption of the program and results in a reasonable reduction to the revenue requirement.

9 ***Issue No. 6: Meals, Entertainment, Gifts, and Travel***

10 **Q. Please describe the Stipulating Parties' agreement regarding meals, entertainment,**
11 **gifts and travel.**

12 A. NW Natural's Initial Filing proposed to include its costs associated with employee meals,
13 entertainment, gifts and travel. The Company has explained that these costs are the
14 necessary costs related to meals and travel for business purposes and also the costs
15 associated with awards and entertainment that reward employee performance.³⁹ For
16 example, the category of meals expense included meals expense related to meal
17 allowances and per diems under the Company's Joint-Accord agreement with its union
18 employees and also per diems paid to non-bargaining unit employees traveling for
19 business purposes.⁴⁰

20 Staff proposed several adjustments to NW Natural's expenses in these categories
21 as follows:

³⁸ Stipulation at 4.

³⁹ NW Natural/1700, Moncayo/91-94.

⁴⁰ NW Natural/1700, Moncayo/92.

- 1 • Removal of the costs associated with employee awards (*i.e.*, employee
2 gifts and entertainment) in their entirety;
3
- 4 • Removal of fifty percent of all meals expense regardless of category (*i.e.*,
5 regardless of whether the meals expense was for bargaining or non-
6 bargaining unit employees); and
7
- 8 • Removal of between fifty and 100 percent of travel expenses based on
9 Staff's analysis of the descriptions provided for each travel expense item.⁴¹

10 These adjustments resulted in a total recommended reduction of \$1,266,732 by Staff.

11 The agreed-to adjustment represents a compromise between the Company's
12 Initial Filing and these adjustments proposed by Staff. Items that were discussed, and
13 which represent topics on which the compromise was based include non-meals expense
14 that was erroneously included in the Company's Initial Filing, that meals expense for the
15 Company's union employees is non-discretionary pursuant to the applicable union
16 contracts, and the correction of an error in the calculation of mileage expense and a fifty
17 percent sharing of employee awards costs between shareholders and customers. In total,
18 the agreed to adjustment results in a reduction to the revenue requirement of \$936,000.

19 **Q. Why is the Stipulating Parties' agreement regarding meals, entertainment, travel**
20 **and gifts reasonable?**

21 A. While the Stipulating Parties do not necessarily agree on the percentage of sharing
22 between customers and shareholders related to employee awards, the Company has
23 agreed to accept this adjustment as part of the overall settlement of issues. In addition,
24 Staff has agreed that where a union employment contract requires reimbursement for
25 meals that these costs are not discretionary and therefore it may be reasonable in this
26 case for those costs to be included in the revenue requirement. The Stipulating Parties

⁴¹ Staff/1000, Zarate/1-5.

1 have agreed that the total adjustment to these costs is reasonable and will further the
2 resolution of this proceeding.

3 ***Issue No. 7: Salaries, Wages, Incentives, and Medical Benefits.***

4 **Q. Please describe the agreement in the Stipulation regarding salaries, wages,**
5 **incentives and medical benefits.**

6 A. The Company projected its wages, salary, and medical benefit costs based on trend
7 surveys performed by well-regarded organizations and also its own analysis of Company-
8 specific considerations.⁴² These Company-specific considerations include the
9 requirements of the Company's bargaining unit agreements (for wages and salaries) and
10 the Company's actual claims experience (for medical benefits).⁴³

11 With respect to incentive pay, the Company proposed to recover the costs
12 associated with all incentive pay. The Company acknowledged that this request was
13 inconsistent with prior Commission precedent but presented several arguments in support
14 of a change in policy.⁴⁴ The Company asserted that a change in precedent was warranted
15 based on changes in compensation practices within the industry, and the benefits this pay
16 provides to customers by promoting good employee performance.⁴⁵ The Company also
17 argued that the Commission's prior precedent was not in line with other regulatory
18 commissions.⁴⁶ Based on these factors, the Company proposed that the Commission re-
19 examine its precedent regarding incentive pay in the context of this proceeding or,
20 alternatively, through a separate investigation.⁴⁷

⁴² NW Natural/1800, Doolittle/2, 32

⁴³ NW Natural/1800, Doolittle/2, 32.

⁴⁴ NW Natural/700, Doolittle/11-12.

⁴⁵ NW Natural/700, Doolittle/11-12.

⁴⁶ NW Natural/700, Doolittle/14.

⁴⁷ NW Natural/700, Doolittle/16.

1 Staff proposed several adjustments specifically including adjustments to the
2 Company's wages and salaries based on its use of the All-Urban consumer price index
3 (CPI) as the escalation factor.⁴⁸ Staff also recommended an adjustment to the Company's
4 sharing proposal for incentive pay such that all officer incentive pay would be disallowed
5 in its entirety and non-officer incentive pay would be disallowed at fifty percent, if based
6 on non-financial metrics, or at seventy-five percent, if based on financial metrics.⁴⁹ Finally,
7 Staff recommended a downward adjustment to medical benefit costs during the Test Year
8 based on Staff's analysis of insurance cost trends.⁵⁰ In total, Staff recommended a
9 reduction of \$9,415,000 to the revenue requirement related to these categories of costs.⁵¹
10 The Stipulating Parties agreed to an adjustment that took each of these recommendations
11 into account and that results in a reduction to the revenue requirement by \$6,171,000.

12 **Q. Why is the Stipulating Parties' agreement regarding salaries, wages, incentives, and**
13 **medical benefits reasonable?**

14 A. While the Stipulating Parties do not agree on what the appropriate escalation factor for
15 salaries and wages should be, the Stipulating Parties do agree that an escalation factor is
16 reasonable. Moreover, while NW Natural does not agree that any portion of incentive
17 compensation should be disallowed from rate recovery consideration, it has, for the sake
18 of compromise, agreed to bear a certain amount in this case. The adjustment therefore
19 represents a compromise on these issues and the Stipulating Parties have agreed that
20 this adjustment represents a reasonable reduction that will aid in the resolution of this
21 proceeding.

⁴⁸ Staff/100, Gardner/31-32.

⁴⁹ Staff/100, Gardner/36-37.

⁵⁰ See Staff/600, Gibbens/6-7; see also Staff/100, Gardner/36-42.

⁵¹ Staff/100, Gardner/3-4.

1 While the Company has agreed to bear a portion of incentive pay in order to
2 effectuate this settlement agreement, the Company has reserved its right to request that
3 the Commission open an investigation regarding treatment of incentive pay.

4 ***Issue No. 8: Gas Storage Operations and Maintenance Expense***

5 **Q. Please describe the agreement in the Stipulation regarding gas storage expense.**

6 A. In NW Natural's Initial Filing, the Company included gas storage expense based on actual
7 costs incurred during the Base Year in the Oregon-allocated amount of \$5,377,449.⁵²
8 Staff proposed to reduce these costs using a three-year historical average of costs. The
9 Stipulating Parties have agreed to a reduction of \$16,000 as a compromise.

10 **Q. Why is the Stipulating Parties' agreement regarding gas storage reasonable?**

11 A. The Stipulating Parties' agreement reflects a reasonable compromise because it reflects
12 the rising costs actually being experienced by the Company and contributes to the overall
13 fair resolution of revenue requirement in this case.

14 ***Issue No. 9: Plant Maintenance***

15 **Q. Please describe the Stipulation regarding plant maintenance.**

16 A. In its Initial Filing, NW Natural proposed plant maintenance costs based on actual costs
17 during the Base Year in the amount of \$2.1 million.⁵³ Staff recommended a reduction of
18 \$113,000 to these costs based on its calculation of a three-year average.⁵⁴ The Stipulating
19 Parties have reached a compromise that resulted in a reduction of \$41,000 to the revenue
20 requirement.⁵⁵

⁵² NW Natural/206, McVay/1.

⁵³ NW Natural/1700, Moncayo/82.

⁵⁴ Staff/800, Moore/8.

⁵⁵ Stipulation at 4.

1 **Q. Why is the Stipulating Parties' agreement regarding plant maintenance costs**
2 **reasonable?**

3 A. The Stipulating Parties' agreement represents a compromise between NW Natural's Initial
4 Filing and Staff's proposed adjustment. This reduction represents a reasonable
5 compromise and contributes to the overall fair resolution of this case.⁵⁶

6 ***Issue No. 10: Distribution O&M***

7 **Q. Please describe the Stipulating Parties' agreement regarding distribution**
8 **operations and maintenance (O&M) costs.**

9 A. Like plant maintenance costs, the Company proposal in its Initial Filing was based on
10 actual costs incurred during the Base Year and reflected actual increasing costs, including
11 higher contractual costs for locating services. The total costs proposed by NW Natural
12 were \$13.09 million.⁵⁷ Staff proposed an adjustment decreasing NW Natural's revenue
13 requirement by \$2.1 million based on its use of a three-year average to calculate these
14 costs.⁵⁸ The Stipulating Parties agreed to a reduction of \$206,000 to revenue requirement
15 based on a compromise between the Company's Initial Filing and Staff's recommended
16 adjustments.⁵⁹

17 **Q. Why is the Stipulating Parties' agreement regarding distribution O&M reasonable?**

18 A. The Stipulating Parties' agreement to reduce revenue requirement for distribution O&M
19 reflects the Company's actual experience regarding rising costs, due in part to its contract
20 for locating services and the increased use of locating services.⁶⁰ In addition, the

⁵⁶ Staff/200, Muldoon/27.

⁵⁷ NW Natural/1700, Moncayo/82.

⁵⁸ Staff/800, Moore/8.

⁵⁹ Stipulation at 4.

⁶⁰ NW Natural/1700, Moncayo/84.

1 reduction reflects Staff's proposal to closer align the Test Year distribution O&M to a three-
2 year average but increases the resulting value using an escalation factor, also in
3 recognition of the Company's rising costs for distribution O&M. The \$206,000 reduction
4 to revenue requirement is based on these compromises and in recognition of the
5 Company's actual experience and therefore is reasonable.

6 ***Issue No. 11: Customer Accounts***

7 **Q. Please describe the agreement in the Stipulation regarding customer accounts.**

8 A. The Company proposed to include approximately \$18.2 million in expense related to
9 customer accounts calculated; the non-labor portion of this expense totaled \$5.32 for the
10 Test Year.⁶¹ This proposal represents a 4.5 percent decrease from the Base Year
11 expense.⁶²

12 Staff proposed an adjustment of \$356,517 to NW Natural's customer accounts
13 costs in rate base, based on its use of a three-year average.⁶³ The Stipulating Parties
14 have agreed to a reduction to revenue requirement of \$103,000.⁶⁴

15 **Q. Why is the Stipulating Parties' agreement regarding customer accounts**
16 **reasonable?**

17 A. The Stipulating Parties' agreement represents a compromise between NW Natural's Initial
18 Filing and Staff's proposed adjustment. This reduction represents a reasonable
19 compromise and contributes to the overall fair resolution of this case.

⁶¹ NW Natural/1700, Moncayo/83.

⁶² NW Natural/1700, Moncayo/83.

⁶³ Staff/800, Moore/10.

⁶⁴ Stipulation at 4.

1 **Issue No. 12: Memberships, Dues and Donations**

2 **Q. Please describe the agreement in the Stipulation regarding memberships, dues and**
3 **donations.**

4 A. The Company's Initial Filing proposed to recover all expense associated with its dues and
5 memberships based on NW Natural's actual 2017 expense, escalated for the Test Year.
6 The total Oregon-allocated amount proposed by the Company for the Test Year was
7 \$1,010,884.⁶⁵

8 Staff proposed several reductions to the costs in these categories, including a
9 reduction of 25% to the costs associated with national and regional organizations based
10 on Staff's assertion that this represents a reasonable estimation of the costs associated
11 with lobbying expenses.⁶⁶ Staff's proposed adjustments resulted in a total proposed
12 deduction of \$451,525.⁶⁷ The Stipulating Parties agreed that an adjustment to the
13 proposed costs for fees associated with national and regional organizations was
14 reasonable for purposes of reaching resolution of this case. The adjustment results in a
15 reduction to revenue requirement of \$191,000.⁶⁸

16 **Q. Please explain the reasonableness of the adjustment for memberships, dues, and**
17 **donations.**

18 A. The agreed-upon reduction to NW Natural's Initial Filing is based on a compromise among
19 the Stipulating Parties' positions. While the Stipulating Parties do not necessarily agree
20 on the methodology for determining a sharing allocation, the Stipulating Parties have
21 agreed that adopting Staff's recommendation regarding national and regional

⁶⁵ NW Natural/1726, Moncayo/7.

⁶⁶ Staff/900, Rossow/3.

⁶⁷ Staff/900, Rossow/2.

⁶⁸ Stipulation at 5.

1 organizations in this proceeding results in a reasonable resolution that furthers the overall
2 resolution of revenue requirement in this case.

3 **Issue No. 14: Property Tax**

4 **Q. Please describe the agreement in the Stipulation regarding property tax.**

5 A. The Company included property tax amounts for the Test Year that were calculated using
6 the rate resulting from a one-third, two-third average of the 2016 and 2017 rates,
7 respectively, derived by taking the assessed taxes divided by net utility plant at December
8 31 of the year prior to each assessment.⁶⁹ The rate was then applied to net plant at year
9 end 2017 for the 2018 tax assessment and to year end 2018 for the 2019 tax
10 assessment.⁷⁰ Finally, the forecast assessments for the two years were then combined
11 at a ratio of eight months of 2018 and four months of 2019 to arrive at an appropriate tax
12 expense to include for the Test Year because the ratio is based on property tax
13 assessments occurring on a July to June cycle.⁷¹ The total property tax amount proposed
14 by the Company for the Test Year was \$22,381,734.⁷²

15 Staff proposed an adjustment to the Company's proposed property tax based on
16 its use of a three-year average to calculate a tax rate, and also a disallowance of gross
17 plant amounts. This adjustment resulted in a proposed reduction of \$1,104,000. The
18 Parties agreed to a settlement approach of half of the adjustment reflecting the use of the
19 three-year average, resulting in a reduction to revenue requirement of \$152,000.⁷³ Other
20 stipulated adjustments concerning gross plant reflected property tax effects as a

⁶⁹ NW Natural/200, McVay/16; see also NW Natural/209, McVay/1.

⁷⁰ NW Natural/200, McVay/16 see also NW Natural/209, McVay/1.

⁷¹ NW Natural/200, McVay/16 see also NW Natural/209, McVay/1.

⁷² NW Natural/209, McVay/1.

⁷³ Stipulation at 5.

1 component of those adjustments.

2 **Q. Why is the Stipulating Parties' agreement regarding property tax reasonable?**

3 A. While the parties do not necessarily agree on a methodology for calculating Test Year
4 Property Tax expense, the Stipulating Parties' agreement reflects a reasonable
5 compromise and contributes to the overall resolution of revenue requirement in this case.

6 ***Issue No. 15: Oregon Department of Energy Fees***

7 **Q. Please describe the Stipulation regarding Oregon Department of Energy (ODOE)**
8 **fees.**

9 A. The Company proposed to include \$818,485 in ODOE fees for the Test Year.⁷⁴ This
10 amount was calculated using a one-third/two-third average effective rate for the two-year
11 period of 2015 and 2016, and applying the average effective rate to total operating
12 revenues.⁷⁵ Staff recommended use of a three-year average to calculate the ODOE fees
13 instead of the Company's proposal resulted in a proposed reduction of \$48,000.⁷⁶ The
14 Stipulating Parties have used a non-weighted two-year average effective rate that results
15 in a reduction to revenue requirement of \$20,000.⁷⁷

16 **Q. Why is the Stipulating Parties' agreement regarding ODOE fees reasonable?**

17 A. While the Stipulating Parties do not agree on the proposed approach for calculating ODOE
18 fees, the Stipulating Parties agree that the amount of the adjustment results in a fair
19 resolution of revenue requirement in this case.

⁷⁴ NW Natural/209, McVay/1.

⁷⁵ NW Natural/200, McVay/17.

⁷⁶ Staff/100, Gardner/16-17.

⁷⁷ Stipulation at 5.

1 **Issue No. 16: Research and Development Fees**

2 **Q. Please describe the Stipulating Parties' agreement regarding research and**
3 **development fees.**

4 A. NW Natural's Initial Filing included a research and development tax credit in its tax
5 expense based on data from 2015 resulting in a \$76,000 reduction of income tax for the
6 Test Year.⁷⁸ AWEC proposed a reduction to the revenue requirement in the amount of
7 \$75,398 based on the Company's 2016 tax return and also to account for the impacts of
8 the 2017 federal Tax Act.⁷⁹ The Company disagreed with AWEC's calculation with respect
9 to the use of the 2016 return, because NW Natural believed it was not indicative of the
10 underlying expense and credit to be expected in the test year. NW Natural did agree with
11 updating the credit in recognition of the change in the corporate tax rate resulting from the
12 2017 federal tax rate, which resulted in a revenue requirement reduction of \$22,000.

13 **Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding**
14 **the research and development tax credits.**

15 A. The Stipulating Parties have reached a compromise that is reasonable and furthers the
16 resolution of the revenue requirement in this proceeding. In particular, the Stipulating
17 Parties have expressly reached agreement regarding the impacts of the 2017 federal Tax
18 Act on these credits.

⁷⁸ NW Natural/200, McVay/15.

⁷⁹ AWEC/200, Mullins/5.

1 **Issue No. 17: Plant-Test Year Capital Expenditures**

2 **Q. Please describe the Stipulating Parties' agreement regarding plant test-year capital**
3 **expenditures.**

4 A. The Company's Initial Filing included the costs associated with the following categories of
5 capital projects: (a) all capital projects completed since the Company's last rate case
6 (Docket No. UG 221) that will be used and useful as of the rate effective date in this case;⁸⁰
7 and (b) all capital projects that will be completed during the Test Year.⁸¹ For projects
8 completed since the Company's last rate case, the Company proposed to recover the total
9 investment, less depreciation incurred since the date the project was completed.⁸² For
10 capital projects that will be completed during the Test Year, the Company used an average
11 through the Test Year so that customers' rates will reflect those investments only to the
12 extent that they are used and useful in providing utility service during the Test Year.⁸³ The
13 Company proposed a total rate base related to capital projects of \$1,586,290,000 and to
14 include \$111,273,923 in incremental capital costs for the Test Year related to capital
15 projects.⁸⁴

16 Staff proposed a reduction of \$191,146,000 to rate base to reflect a
17 recommendation to disallow investment related to certain projects that were projected to
18 be completed in the six months leading up to the rate effective date of November 1, 2018,
19 to remove most investment related to projects planned for completion during the Test Year
20 (beginning November 1, 2018), to adjust the calculation for the land and building

⁸⁰ These projects include major capital projects like the Mid-Willamette Valley Feeder and the Corvallis Loop.

⁸¹ NW Natural/1700, Moncayo/24.

⁸² NW Natural/1700, Moncayo/24.

⁸³ NW Natural/1700, Moncayo/24.

⁸⁴ NW Natural/600, Moncayo/18.

1 component of gross plant, and to adjust gross plant resulting in a reduction to construction
2 overhead for the years 2013 through June 30, 2018.⁸⁵ In addition, Staff specifically
3 proposed to disallow certain costs associated with the Company's Mid-Willamette Valley
4 Feeder and Corvallis Loop Projects.⁸⁶ The total net adjustment proposed by Staff for all
5 capital projects would reduce the revenue requirement by \$17.2 million.

6 AWEC also proposed to remove projects that were not in service by the November
7 1, 2018 rate effective date. Further, AWEC proposed adjustments to NW Natural's capital
8 forecasting methodology.

9 The Stipulating Parties have reached an agreement to reduce rate base by
10 \$33,730,000 to reflect removal of projects that will not go into service until after November
11 1, 2018, except that the Stipulating Parties have agreed to include a portion of those
12 capital additions related to customer acquisitions.⁸⁷ This results in a reduction to the
13 revenue requirement of \$5,389,000. The Stipulating Parties also included an addition of
14 \$13,516,000 to rate base in recognition of the capital associated with new customers
15 added during the Test Year. This adjustment results in an increase to the revenue
16 requirement of \$1,671,000.⁸⁸ While AWEC and CUB do not agree that the adjustment for
17 new customers should apply in other instances, they both accept this adjustment as
18 compromise in the context of the overall settlement of the issues in this Stipulation.

⁸⁵ NW Natural/1700, Moncayo/25.

⁸⁶ Staff/XX, Kaufman/26, 37.

⁸⁷ Stipulation at 4.

⁸⁸ Stipulation at 4.

1 **Q. Please explain why the agreement regarding Plant Test-Year Capital Expenditures**
2 **is reasonable.**

3 A. The agreement in the Stipulation regarding plant Test-Year capital expenditures reflects
4 a reasonable adjustment because it represents a reasonable compromise between the
5 Company's Initial Filing and Staff's proposed adjustments. Furthermore, the Stipulating
6 Parties will continue their discussions regarding forecast capital additions.

7 The Company has agreed to provide attestations from a Company officer by
8 October 5, 2018 with respect to all capital projects over \$1,000,000 that were expected to
9 be completed by the rate effective date, as of the Initial Filing. The agreed-upon attestation
10 will confirm whether these capital projects will in fact be completed by October 31, 2018.
11 For any projects previously forecast to be completed by October 31, 2018 that are no
12 longer on track for completion, the Company will remove such projects from rate base for
13 purposes of calculating the rates pursuant to the Stipulation. This agreement to provide
14 attestations provides certainty to the Stipulating Parties and the Commission that these
15 projects will be completed prior to the rate effective date.

16 ***Issue No. 18: Customer Deposits***

17 **Q. Please describe the Stipulating Parties' agreement regarding customer deposits.**

18 A. NW Natural proposed to include a reduction to rate base for customer deposits of
19 \$3,849,000⁸⁹ calculated using a one X factor regression model to estimate the trend for
20 the Test Year using monthly historical balances from January 2014 through September
21 2017. Staff proposed an adjustment to the calculation of customer deposits based on its
22 methodology of trending over the 2010-2017 period; Staff's adjustment would result in a

⁸⁹ NW Natural/201, McVay/1.

1 reduction of \$576,000 to rate base.⁹⁰ The Stipulating Parties agreed to use this
2 methodology but adjusted to update Staff's calculation with monthly values instead of the
3 proposed year-end approach.⁹¹ This results in a reduction to rate base of \$291,000 and
4 a reduction to revenue requirement of \$27,000.⁹²

5 **Q. Why is the Stipulating Parties' agreement regarding customer deposits**
6 **reasonable?**

7 A. The Stipulating Parties have agreed to Staff's methodology adjusted to use monthly
8 values. This represents a reasonable compromise between the methodologies proposed
9 by the Stipulating Parties and the use of monthly data captures the seasonality of
10 customer deposits

11 **IV. NON-REVENUE REQUIREMENT ISSUES**

12 **Q. Did the Stipulation also include settlement of non-revenue requirement issues?**

13 A. Yes, the Stipulation also settled non-revenue requirement issues raised in the case, as
14 described further below.

15 ***Rate Spread***

16 **Q. Please describe the Stipulating Parties' agreement regarding rate spread.**

17 A. The Stipulating Parties agreed to the rate spread as shown in Appendix B to the
18 Stipulation.⁹³ Specifically, the Stipulating Parties have agreed that the final base rate
19 increase approved in this matter will be applied using an "equal percent of margin"
20 calculation. This calculation takes the margin revenue by rate schedule at current rates
21 and divides that by NW Natural's total margin to derive a percentage rate. The percentage

⁹⁰ Staff/100, Gardner/23.

⁹¹ Stipulation at 3.

⁹² Stipulation at 3.

⁹³ Stipulation at Appendix B.

1 rate is then multiplied by the incremental revenue requirement (\$16 million) to calculate
2 the dollar increase apportioned to each rate schedule.

3 **Q. Please explain why the Stipulation regarding rate spread is reasonable.**

4 A. The Stipulating Parties agree that the rate spread shown in Appendix B to the Stipulation
5 represents a compromise that fairly balances the interests of the Stipulating Parties. While
6 the signing parties may each hold different positions on cost of service issues, the
7 Stipulating Parties support the Stipulation on rate spread and rate design and believe it
8 results in rates that are fair, just, and reasonable.

9 ***Revisions to NW Natural's Tariffs***

10 **Q. Please describe the Stipulation regarding revisions to tariffs.**

11 A. Subject to approval of the Stipulation, NW Natural will file revised rate schedules as a
12 compliance filing in Docket No. UG 344, to be effective November 1, 2018, reflecting rates
13 as agreed to in the Stipulation.

14 **Q. Please explain the reasonableness of the Stipulation regarding revisions to tariffs.**

15 A. The revisions are intended to revise NW Natural's tariffs for updates that are necessary
16 as a result of approval of the Stipulation.

17 ***Promotions and Concessions***

18 **Q. Please describe the agreement in the Stipulation regarding the promotions and
19 concessions.**

20 A. In its testimony, Staff raised concerns regarding the categorization of certain advertising
21 expenses that Staff has determined are more appropriately categorized as promotions.⁹⁴

⁹⁴ Staff/400, Anderson/14.

1 NW Natural has agreed to review and amend its categorization of these costs as
2 necessary to address concerns raised by Staff in this proceeding.⁹⁵

3 **Q. Please explain why the agreement in the Stipulation regarding the promotions and**
4 **concessions is reasonable.**

5 A. NW Natural's agreement to review its accounting practices related to categorization of its
6 advertising, promotions, and concessions expenses is appropriate to ensure that future
7 rate proceedings are streamlined and that review of its filing is transparent. However, it is
8 also important for NW Natural to carefully review Staff's recommendations and make only
9 those changes that are accurate and consistent with accepted accounting practices. The
10 Stipulation represents a commitment to meet these objectives.

11 ***Attestations***

12 **Q. Please describe the agreement in the Stipulation regarding attestations.**

13 A. The Company has agreed to file an attestation of a Company officer by October 5, 2018
14 with respect to all capital projects over \$1,000,000 that were expected to be completed
15 by the rate effective date, as of the Initial Filing. The agreed-upon attestation will confirm
16 whether these capital projects will in fact be completed by October 31, 2018. For any
17 projects previously forecast to be completed by October 31, 2018 that are no longer on
18 track for completion, the Company will remove such projects from rate base for purposes
19 of calculating the rates pursuant to the Stipulation.

20 **Q. Please explain why the agreement in the Stipulation regarding attestations is**
21 **reasonable.**

22 A. During the course of settlement negotiations, the Stipulating Parties discussed at length

⁹⁵ Stipulation at 6.

1 whether all capital additions projects forecasted for completion prior to the rate effective
2 date remained on target. Submitting attestations for those projects with completion dates
3 in October 2018 is consistent with Commission precedent and provides certainty and
4 transparency regarding these projects.

5 ***Revenue Decoupling***

6 **Q. Please describe the agreement in the Stipulation regarding revenue decoupling.**

7 A. The Company's Initial Filing included a proposal to modify the Company's revenue
8 decoupling mechanism. CUB expressed concerns about the legality of the Company's
9 proposal to include weather-related variations in its decoupling mechanism.⁹⁶ As part of
10 the settlement negotiation process, the Company has agreed to withdraw this proposal
11 and retain its current decoupling mechanism with the following exception. The Stipulating
12 Parties have agreed that it is appropriate to administer decoupling for NW Natural's
13 commercial customer class on a rate schedule specific basis (Rate Schedules 3 and 31)
14 instead of on the currently effective combined basis.

15 **Q. Please explain why the Stipulating Parties' agreement regarding revenue
16 decoupling is reasonable.**

17 A. The first part of the agreement reached regarding revenue decoupling (to withdraw the
18 Company's proposed changes to its revenue decoupling proposal) represents a
19 reasonable compromise in order to reach a settlement in this proceeding. In addition, the
20 agreement to administer decoupling on a specific basis for Commercial Rate Schedules
21 3 and 31 will provide greater transparency into the collections of the revenue decoupling

⁹⁶ CUB/100, Jenks-Gehrke/22-32.

1 deferral for these rate schedules.

2 **Capital Additions**

3 **Q. Please describe the agreement in the Stipulation regarding capital additions.**

4 A. During the course of this proceeding, Staff has raised issues regarding how the Company
5 forecasts the Test Year capital additions costs. In addition to the compromise contained
6 in the Stipulation resulting in adjustment to the revenue requirement, the Company has
7 agreed to respond to additional discovery requests regarding its forecast for capital
8 additions.

9 **Q. Please explain why the Stipulating Parties' agreement regarding capital additions
10 is reasonable.**

11 A. By agreeing to respond to additional discovery requests that may inform future rate
12 proceedings, the Stipulating Parties will be able to have additional discussions in advance
13 of the Company's next rate case regarding Company practices. This is expected to align
14 the viewpoints of all parties and result in greater efficiencies going forward.

15 **V. REASONABLENESS OF THE STIPULATION**

16 **Q. What is the basis for the Stipulation?**

17 A. The Stipulation is a compromise based on the record in this case, which includes NW
18 Natural's Initial and Supplemental Filings in Docket No. UG 344, the opening testimony of
19 Staff, CUB, and AWEC, and NW Natural's Reply Filing. Additionally, NW Natural
20 responded to at least 400 data requests from Staff, CUB, and AWEC, and provided
21 updates to the data responses as necessary and appropriate. Over the course of the
22 settlement discussions, the Stipulating Parties resolved their differences regarding the

1 issues resolved in the Stipulation through dialogue, negotiations, and compromise to
2 reach a fair result.

3 **Q. What is your recommendation to the Commission regarding the Stipulation?**

4 A. The Stipulating Parties recommend and request that the Commission approve the
5 Stipulation in its entirety.

6 **Q. Please explain why the Stipulating Parties believe that the Commission should
7 adopt the Stipulation?**

8 A. The Stipulating Parties have carefully reviewed NW Natural's Initial Filing, Supplemental
9 Filing, and Reply Filing, NW Natural's responses to data requests, and have thoroughly
10 analyzed the issues during multiple days of settlement conferences. The Stipulating
11 Parties believe that the adjustments and agreements in the Stipulation provide a fair and
12 reasonable resolution of the issues in this docket⁹⁷ and the resulting rates are fair, just and
13 reasonable.

14 **Q. Please elaborate.**

15 A. The Stipulation represents a reasonable compromise for many reasons, including the
16 following: (1) the Stipulation results in a 2.55 percent increase to total revenues, or a 4.57
17 percent margin increase; (2) the Stipulation represents a fair settlement of nearly all
18 revenue requirement issues; (3) settlement of the issues presented in the Stipulation
19 significantly reduces the scope of litigation in this proceeding; and (4) the terms of the
20 Stipulation provide certainty that the costs proposed in this case will be in service for the
21 benefit of Oregon customers during the Test Year.

⁹⁷ As noted above, the Stipulating Parties continue to litigate the following three issues: the Company's pension balance account, sharing of revenues produced by optimization of certain NW Natural assets and the Company's Interstate Storage operations, and the impact of the 2017 federal Tax Cuts and Jobs Act on the Company's accumulated deferred income tax and the Company's tax expense during the time period leading up to the rate effective date.

1 **Q. Mr. McVay, why does NW Natural believe the Stipulation is reasonable?**

2 A. Each adjustment contained in the Stipulation is supported by evidence in the record and
3 is not contrary to Commission policy. As such, the Stipulation represents a reasonable
4 compromise of each of the issues raised in this case. NW Natural fully supports the results
5 of the Stipulation and believes that the outcome produces rates that are fair, just, and
6 reasonable.

7 **Q. Does NW Natural agree with all methodologies adopted for calculating the revenue
8 requirement in the Stipulation?**

9 A. While it is true that NW Natural does not agree with the specific methodologies used to
10 produce each of the adjustments the Company does support the Stipulation as a whole.
11 However, NW Natural values the positive regulatory relationships furthered by all-party
12 settlements and appreciates the opportunity to avoid the costs and risk associated with
13 litigation.

14 **Q. Ms. Gardner, why does Staff believe the Stipulation is reasonable?**

15 A. Staff believes the Stipulation is supported by the record, which includes the Company's,
16 Staff's, and intervenors' testimony and exhibits. A thorough investigation of the evidence
17 was conducted by the Staff with Staffed addressing its concerns in its testimony. After
18 settlement meetings and workshops, the Stipulating parties reached an agreement that
19 appropriately resolves the issues included in the Stipulation. Staff fully supports the
20 Stipulation and believes it results in overall rates that are fair just and reasonable.

21 **Q. Mr. Jenks, why does CUB believe the Stipulation is reasonable?**

22 A. CUB believes the Stipulation represents a reasonable resolution of the issues addressed
23 herein and recommends the Commission approve the Stipulation. CUB believes the
24 Stipulation is in the public interest and protects the interests of the Company's residential

1 customers. Specifically, CUB believes NW Natural's customers benefit from the overall
2 reduction to the Company's initial rate request, and believes that the settlement reached
3 herein brings NW Natural's rate change into the realm of just, fair, and reasonable rates.
4 Additionally, some of CUB's other concerns were assuaged by the Company's agreement
5 to remove its proposal to include weather related variations in its decoupling mechanism
6 and the requirement that large capital plant additions be accompanied by an officer
7 attestation to ensure the Company is only receiving cost recovery for plant that is used
8 and useful to serve customers within the test year. CUB supports the Stipulation as an
9 overall fair compromise that resolves the majority of the issues in this case.

10 **Q. Mr. Mullins, why does AWEC believe the Stipulation is reasonable?**

11 A. AWEC believes the Stipulation is in the public interest and recommends the Commission
12 approve the settlement because the best interests of NW Natural's natural gas customers
13 are served by the underlying fair compromise on certain cost of capital, 2017 federal Tax
14 Cuts and Jobs Act, revenue requirement and rate spread and design issues. While the
15 signing parties may each hold different positions on the individual components of NW
16 Natural's rate case addressed in the Stipulation, AWEC supports the partial settlement as
17 the agreement reached has brought down the overall gas revenue requirement increase
18 from \$37.8 million to \$16 million. Further, although the parties held different views on rate
19 spread and rate design issues, the parties agreed to an equal percent of margin increase,
20 which is a fair compromise of this issue. AWEC supports this Stipulation as an overall
21 result that is a fair compromise between NW Natural and its customers.

22 For the reasons set forth above, AWEC believes the Stipulation is in the public
23 interest and should be approved by the Commission. By supporting this Stipulation,
24 AWEC reserves the right to litigate all unresolved issues.

1 Q. Does this conclude your testimony?

2 A. Yes.