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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 Three-Party Stipulation (Second Stipulation). The Second Stipulation was entered into between Northwest Natural Gas Company, Commission Staff, and the Oregon Citizens' Utility Board, and was filed with the Public Utility Commission of Oregon on September 7, 2018.

Please contact this office with any questions.

Sincerely,

Alisha Till

Alisha Till
Legal Assistant

Attachments

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 344

Joint Testimony in Support of Second Stipulation

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

NW NATURAL-STAFF-CUB EXHIBIT 200

Joint Testimony of Sean Borgerson, Brody Wilson, Marianne Gardner, and Bob Jenks

September 14, 2018

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I. INTRODUCTION AND SUMMARY

Q. Who is sponsoring this testimony?

A. This testimony is sponsored jointly by NW Natural Gas Company d/b/a NW Natural (NW Natural or Company), Staff of the Public Utility Commission of Oregon (Staff), and the Oregon Citizens' Utility Board (CUB) (collectively, the Stipulating Parties).

Q. Please provide your names, positions, and qualifications.

A. My name is Sean Borgerson, and I am employed as the Tax Director for NW Natural. My qualifications are described in Exhibit NW Natural/2500, Borgerson/1.

My name is Brody Wilson, and my current position is Vice President, Treasurer, Chief Accounting Officer, and Controller for NW Natural. My qualifications are provided in Exhibit NW Natural/2600, Wilson/1.

My name is Marianne Gardner, and I am a Senior Revenue Requirement Analyst employed in the Energy Rates, Finance, and Audit Division of the Public Utility Commission of Oregon (Commission). My qualifications are provided in Exhibit Staff/101, Gardner/1.

My name is Bob Jenks, and I am the Executive Director of CUB. My qualifications are provided in Exhibit CUB/101, Jenks/1.

Q. What is the purpose of this Joint Testimony?

A. This Joint Testimony describes and supports the second stipulation filed in Docket No. UG 344 on September 7, 2018 (Second Stipulation). The Second Stipulation is joined by the Stipulating Parties and resolves the impact of the 2017 federal Tax Cuts and Jobs Act (TCJA) on the Company's accumulated deferred income tax (ADIT), the Company's tax expense during the time period leading up to the rate effective date, and the issues raised in this proceeding regarding the treatment of the Company's pension balancing account (PBA).

Q. Did the Alliance of Western Energy Consumers (AWEC) join the Second Stipulation?

A. No, AWEC did not join the Second Stipulation.

II. BACKGROUND

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

A. On December 29, 2017, NW Natural initiated this proceeding, Docket No. UG 344, by filing a request for a general rate increase (Initial Filing). In its Initial Filing, NW Natural requested a revision to customer rates that would increase the Company's annual Oregon jurisdictional revenues from base rates by $52.4 million, or an approximately 8.3 percent increase over current customer rates. On December 29, 2017, both Staff and NW Natural filed applications to defer certain tax expense changes associated with the TCJA. NW Natural's application was docketed as Docket No. UM 1919 and Staff's application was docketed as Docket No. UM 1924.

On March 20, 2018, the Company filed supplemental direct testimony regarding updates to the test year and revenue requirement that accounted for the impacts of the TCJA to the rate case's forecasted Test Year, and revised the application of the depreciation study approved by the Commission on January 5, 2018 in Docket No. UM 1808 (the Supplemental Filing). The impact of these revisions was to reduce the requested revenue increase from base rates to $37.8 million (or $25.7 million after the consideration for decoupling).

Administrative Law Judge Allan J. Arlow convened a prehearing conference on February 1, 2018. In accordance with the prehearing conference order, the effective date for rates will be November 1, 2018.

Q. Have the parties conducted discovery in this case?

A. Yes. Since the Initial Filing, NW Natural has responded to over 500 data requests from Staff, CUB, and AWEC, and has provided updates to its data responses during the pendency of this case.

Q. Please describe the process to date in this docket.

A. On April 20, 2018, Staff, CUB, and AWEC filed opening testimony proposing various adjustments to NW Natural's Initial Filing.[1] The parties convened an initial settlement conference on April 30, 2018. NW Natural filed its reply testimony on May 23, 2018. In its reply testimony (Reply Filing), the Company provided corrections and updates to its Initial Filing and responded to the testimony of Staff, CUB, and AWEC. The Stipulating Parties convened settlement conferences on May 30-31, 2018 and June 12, 2018. As a result of those discussions, the Stipulating Parties and AWEC reached a settlement of the issues presented in the stipulation filed with the Commission on August 6, 2018 (First Stipulation).

On June 20, 2018, Staff and intervenors filed rebuttal testimony on the remaining issues not resolved through the First Stipulation, and NW Natural filed surrebuttal testimony on July 9, 2018. On July 19, 2018, the Stipulating Parties and AWEC convened settlement discussions on two of the three remaining issues in the docket.

[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.

The Stipulating Parties met again on August 27, 2018. AWEC was invited to participate but chose to not join this conference. As a result of the discussions held on July 19 and August 27, the Stipulating Parties have agreed to the Second Stipulation.

Q. Please provide an overview of the issues addressed in the First Stipulation.

A. The First Stipulation resolved all but three issues in the case. Specifically, the First Stipulation resolved the following revenue requirement issues: Oregon Department of Energy fees; property taxes; customer deposits; salary, wages, incentives, and medical benefits; plant adjustments; advertising expenses, promotions and concessions, affiliate interest, and miscellaneous A&G; miscellaneous revenues; fee free bankcard program; director and officer insurance premiums; gas storage and fuel stock; plant maintenance; distribution operations and maintenance; stock issuance costs; customer account expense; memberships, dues, and donations; meals, entertainment and travel; and research; development tax credits; cost of capital; capital additions, and promotions and concessions. Additionally, the First Stipulation addressed the following issues: rate spread and rate design; attestation regarding completion of projects by October 31, 2018; revised tariff filing; and revenue decoupling. The First Stipulation also included the TCJA's lower federal income tax rate in base rates.

Q. Please provide an overview of the issues addressed in the Second Stipulation.

A. The Second Stipulation is much narrower in scope, and addresses two of the remaining three issues in this case. Specifically, the Second Stipulation addresses the remaining impacts of the TCJA and resolves the issues associated with the Company's PBA. The sole issue not addressed by either the First or Second Stipulation is the treatment of revenues from the Company's storage and optimization activities.

Q. What are the overall rate impacts of the agreements in the First and Second Stipulation?

A. The overall rate impact of the Second Stipulation results in an increase to base rates of $12.638 million. $7.132 million of the increase is reflected as an increase to the Company's revenue requirement. Additionally, $5.506 million of the increase to base rates will be reflected as separate tariff riders, which is shown in in Exhibit NW Natural-Staff-CUB/203. Taken together, the First Stipulation and Second Stipulation, would result in an updated revenue requirement increase of $23.132 million,[2] or a 3.69 percent increase to base rates—and including the separate tariff riders, would result in an updated revenue increase of $28.638 million, or a 4.57 percent increase to base rates.[3]

III. IMPACTS OF TAX REFORM – INTERIM PERIOD AND EXCESS DEFERRED INCOME TAX (EDIT)

Q. Please describe the impacts of the TCJA on the Company that have been considered in this case.

A. The TCJA permanently lowers the U.S. federal corporate income tax rate to 21 percent from the existing maximum rate of 35 percent, effective as of January 1, 2018. The TCJA has three main impacts on the Company that have been discussed and considered in this case:

(1) Adjusting base rates to reflect the lower tax rate of 21 percent;

(2) Calculating and determining the regulatory treatment of the remeasured excess deferred income tax (EDIT) (including impacts on the Company's rate

[2] This amount is shown in Exhibit NW Natural-Staff-CUB/202, Borgerson, Wilson, Gardner, and Jenks/1.
[3] The calculation of the overall impact to revenue is shown in Exhibit NW Natural-Staff-CUB/203.

base associated with providing benefits to customers from the remeasured EDIT); and

(3) Calculating and determining the regulatory treatment of the tax benefits for the period January 1, 2018 to October 31, 2018 (Interim Period).

Q. Did the Company and Staff file deferral applications in connection with the TCJA?

A. Yes. To address the change in the federal income tax rate, NW Natural filed a TCJA-related deferral application with the Commission on December 29, 2017. Staff also filed a deferral application on December 29, 2017. These deferral applications are docketed as UM 1919 and UM 1924, respectively.

Q. Are certain impacts of tax reform addressed in the First Stipulation?

A. Yes. The First Stipulation resolved the application of the TCJA's lower federal income tax rate in base rates, but did not address the calculation and treatment of EDIT or the calculation and treatment of the Interim Period tax benefit amount.

Q. Does the Second Stipulation address the remaining impacts of the TCJA?

A. Yes. The Second Stipulation addresses the impact of the TCJA on the Company's EDIT and the Company's tax expense during the Interim Period. Specifically, the Second Stipulation provides the ratemaking treatment that will credit to customers the benefits of the impacts of the TCJA beginning on the rate effective date (November 1, 2018) of this general rate case.

Q. Please describe the agreement regarding the remaining impacts of the TCJA.

A. The Second Stipulation has several components:

- The Stipulating parties agree that NW Natural properly recorded the remeasurement of regulated utility EDIT as a result of the TCJA. Specifically, NW Natural recorded a remeasurement of regulated utility deferred income taxes of $156.8 million on a system-wide basis. The figure is comprised of balances related to Plant, Other Non-Plant, and Non-Plant Gas Reserves in the amounts of $140.62 million, $5.45 million, and $10.76 million, respectively. The sum of these figures, grossed up for income taxes, equals $213.30 million.[4]

- NW Natural will return to customers EDIT (Plant), subject to the average rate assumption method (ARAM), in the amount of $3.26 million per year in base rates beginning on the rate effective date.
- NW Natural will return to sales customers $14.64 million of EDIT (Non-Plant Gas Reserves), inclusive of a gross up for income taxes, over five years through a separate tariff rider.
- NW Natural will credit to customers' benefit $6.67 million of EDIT (Other Non-Plant) reflected as a one-time reduction to the PBA as described in Paragraph 10 of the Second Stipulation.
- Effective on the rate effective date, rate base will be increased by $22.15 million to reflect the EDIT being provided to customers as part of the Second Stipulation. This increase to rate base results in a $2.06 million increase to revenue requirement.
- In the Company's next general rate case, or five years from the date of the rate effective date, whichever is sooner, the amount of plant-related EDIT being amortized subject to ARAM will be reviewed and adjusted as appropriate based on the remaining balance of the EDIT and normalization requirements under ARAM. In the event that an adjustment to the amortization of EDIT occurs outside of a general

[4] These amounts, and the allocation for Oregon, are included in Exhibit A to the Second Stipulation.

rate case, the adjustment would be made through a separate tariff rider, and rate base would not be adjusted until the Company's next general rate case.

- NW Natural agrees to forego any sharing of deferred amounts that it would otherwise be allowed to recover under any earnings review the Commission applies before amortization of amounts in the Interim Period Tax Deferral and the EDIT in the TCJA Deferral Dockets (Docket Nos. UM 1919 and 1924).
- The Stipulating Parties agree that all issues related to NW Natural's and Staff's deferrals associated with the impacts of the TCJA in Docket Nos. UM 1919 and 1924 (the TCJA Deferral Dockets), respectively, are resolved by the Second Stipulation. After approval of the Second Stipulation, the Stipulating Parties will jointly request to the Commission that the TCJA Deferral Dockets be resolved in accordance with the terms of this Second Stipulation. The Stipulating Parties will also jointly request that any amounts deferred in Docket Nos. UM 1919 and UM 1924 be amortized in accordance with the terms of the Second Stipulation.

Q. Did the Stipulating Parties agree that NW Natural had appropriately remeasured the Company's EDIT resulting from the TCJA?

A. Yes.

Q. Please describe how the Company remeasured EDIT resulting from the TCJA.

A. As NW Natural explained in its testimony, the Company remeasured federal accumulated deferred income taxes (ADIT) in December of 2017, when the TCJA was enacted, using the newly lowered income tax rate.[5] The change in ADIT was determined by measuring the federal temporary differences using a 21 percent federal statutory

[5] NW Natural/2500, Borgerson/13.

income tax rate and comparing this result to the federal ADIT balance existing immediately prior to the remeasurement.[6] This remeasurement of ADIT, which resulted in the excess deferred income taxes that will be credited to customers, was recorded as a net reduction in ADIT with an offsetting entry to a new regulatory liability account.[7] The Company provided workpapers to all parties through discovery that showed the Company's calculation of the remeasurement and proposed amortization of these amounts.

In NW Natural's case, the remeasurement resulted in the identification of a $156.8 million reduction in the Company's deferred tax liabilities associated with providing utility service. The EDIT is therefore available to benefit customers, in recognition of the fact that these deferred taxes were paid for by customers in utility ratemaking in past periods. These EDIT-related benefits due to customers are then further grossed-up, to reflect the fact that the return of these benefits is a tax-deductible event, at the new corporate tax rates.[8] This gross-up increases the benefit to customers to $213.3 million.

Q. Are there different categories of EDIT?

A. Yes. As explained above, the Company's EDIT is comprised of the total EDIT for Plant, Other Non-Plant, and Non-Plant Gas Reserves.

Q. Are there limits on how quickly EDIT can be returned?

A. Yes. The amortization of EDIT (Plant) is subject to normalization requirements, which set a limit on how quickly EDIT can be returned to customers. In its testimony, NW

[6] NW Natural/2500, Borgerson/13.
[7] NW Natural/2500, Borgerson/13.
[8] NW Natural/2500, Borgerson/14-15.

Natural referred to this as a "speed limit" for return of EDIT.[9] If the Company returns EDIT (Plant) faster than is allowed by the "speed limit," the Company could be subject to a normalization violation, which would result in a dollar-for-dollar penalty of the amounts returned too quickly.

Q. Did the Stipulating Parties agree to use the average rate assumption method (ARAM) to determine the amortization schedule for plant-related EDIT?

A. Yes, the Stipulating Parties agreed that ARAM must be used to determine the appropriate amortization schedule for EDIT (Plant).

Q. Why did the Stipulating Parties agree to use ARAM?

A. The federal normalization rules indicate that ARAM is the primary method to be used to develop the annual "speed limit" test for amortization of plant-related EDIT.[10] However, if the data to prepare the ARAM schedule is not available, then the TCJA provides that the Reverse South Georgia Method (RSGM) can be used as an alternative—but only for vintages that lack adequate data.[11] Because NW Natural has adequately granular data to use ARAM for all years, ARAM must be used.

Q. What annual amount did the Stipulating Parties agree to return to customers for EDIT (Plant)?

A. The Stipulating Parties determined that $3.26 million of EDIT (Plant) per year would be returned to customers in base rates, beginning on the rate effective date, as shown in Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/1. The amount of $3.26 million is the average of the first five years of grossed up ARAM

[9] NW Natural/2500, Borgerson/21-22.
[10] NW Natural/2500, Borgerson/23.
[11] NW Natural/2500, Borgerson/23-24.

amortization as presented on line F in Exhibit NW Natural/2501, Borgerson/1. The Stipulating Parties agreed this was a reasonable result because it will result in a fixed amount being returned to customers and will thus avoid additional rate fluctuations over the next five years, and will provide a timely return of the benefits of tax reform. Additionally, the parties do not expect that returning $3.26 million per year will result in a normalization violation.

Q. How does returning $3.26 million per year of EDIT (Plant) avoid a normalization violation?

A. As provided in §13001(d)(1) of the Tax Cut and Jobs Act, a normalization violation occurs if excess tax reserves are reduced more rapidly, or to a greater extent than such reserve would be reduced under ARAM. The ARAM amortization schedule provided for under these normalization rules sets the 'speed limit' but does not prohibit in any way a mechanism that is slower in rate making. As an example, if an amortization schedule provided for amortization of $10, $10, $12, $8 over the first four years, for a total of $40, it would be acceptable to use a straight-line approach in rate making of $10 each year for four years. Although $10 exceeds the fourth-year amortization of $8, there is $2 left over from year three which can be applied to year four. In other words, ARAM 'speed limit' amortization not utilized in a prior period can be carried forward (not backward) and used in later periods.

As previously noted, the $3.26 million annual inclusion in base rates of EDIT amortization is the average of the first five years of grossed up ARAM amortization. Although $3.26 million exceeds the ARAM speed limit during the first two years of the averaging period, there is unused ARAM speed limit amortization from the period January 1, 2018 through October 31, 2018 that can be applied in these later periods.

It is anticipated that annual ARAM amortization amounts will vary, perhaps significantly, from year to year. The Stipulating Parties have closely reviewed the proposed amortization of $3.26 million of EDIT and believe that, at least for the next five years, amortization of this amount is not likely to result in a normalization violation for the Company. In arriving at this figure, the Stipulating Parties balanced the need to avoid a normalization violation with the need to provide customers with a timely return of benefits provided by the TCJA.

Q. Please explain why the Stipulating Parties agreed that in the Company's next general rate case, or five years from the date of the rate effective date, whichever is sooner, the amount of EDIT subject to ARAM being amortized will be reviewed and adjusted as appropriate based on the remaining balance.

A. It is necessary to periodically revisit the amortization of the EDIT (Plant) because, over time, the amount of annual ARAM fluctuates. In order to balance the competing needs of avoiding a normalization violation, yet returning TCJA benefits to customers on a timely basis, the EDIT amortization inclusion in base rates should be reviewed on a periodic basis. The Stipulating Parties agreed that five years from the rate effective date or the Company's next general rate case, whichever is sooner, would be a reasonable time frame for revising the amortization of plant-related EDIT.

Q. What amount did the Stipulating Parties agree should be returned to sales customers for EDIT (Non-Plant Gas Reserves)?

A. The Stipulating Parties determined that $14.64 million of EDIT (Non-Plant Gas Reserves) inclusive of a gross up for income taxes, should be returned to sales customers over five years, through a separate tariff rider. As shown in Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/1 and Exhibit NW

Natural/2501, Borgerson/1, the EDIT (Non-Plant Gas Reserves) amount is $10,766,846, and $14.64 million is the grossed up amount. This amount represents 100 percent of the EDIT balance for gas reserves.

Q. Why did the Stipulating Parties agree to return EDIT (Non-Plant Gas Reserves) to sales customers over five years through a separate tariff rider?

A. The Stipulating Parties determined that EDIT (Non-Plant Gas Reserves) would be returned to sales customers through a separate tariff rider because the costs and benefits of the gas reserves investment, and its related deferred taxes, only affect sales customers. As a result, a separate tariff rider is being used to return EDIT benefits related to gas reserves to the same customer group. While different parties had different recommendations for the appropriate period of time over which to return these benefits, the Stipulating Parties agreed to return the EDIT (Non-Plant Gas Reserves) benefit over five years as a reasonable compromise.

Q. What amount did the Stipulating Parties agree should be credited to the benefit of customers as a reduction to the PBA for EDIT (Other Non-Plant)?

A. The Stipulating Parties determined that $6.67 million of EDIT (Other Non-Plant) would be applied to reduce the balance of the PBA. As shown in Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/1 and Exhibit NW Natural/2501, Borgerson/1, the EDIT (Other Non-Plant) amount is $5,450,377 system wide and $6.67 million is the grossed up amount of the Oregon portion. This amount represents 100 percent of the Oregon jurisdiction allocation of EDIT (Other Non-Plant). The rationale for applying this amount to the PBA is discussed further in Section IV.

Q. Did the Stipulating Parties agree to adjust rate base to reflect the EDIT being provided to customers as part of the Second Stipulation?

A. Yes. The Stipulating Parties agreed to a $22.15 million increase to rate base reflecting the EDIT provided to customers through this Second Stipulation. This increase to rate base results in a $2.06 million increase to revenue requirement.

Q. Why does rate base need to be adjusted?

A. Rate base must be adjusted when EDIT is amortized, because rate base includes deferred taxes, and changes to deferred taxes from amortization result in a change to rate base. The Stipulating Parties' calculation of the adjustment to rate base of $22.15 million is shown in Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/1. The $22.15 million adjustment to rate base is comprised of all of the non-ARAM EDIT amount of $6.671, and half of the five-year amortizations of EDIT subject to ARAM ($8.156 million) and non-plant gas reserves ($7.322 million). The use of a five-year period for determining the effect of rate base was a compromise as part of the settlement of this issue.

Q. Did the Stipulating Parties agree on an amount for the Interim Period tax benefit?

A. The Stipulating Parties agreed that the Interim Period tax benefit amount is $5.9 million, which will be credited to the benefit of customers and reflected as a reduction to the PBA as described in Paragraph 10 of the Second Stipulation. The rationale for applying this amount to the PBA is discussed further in the Section IV.

Q. How did the Stipulating Parties calculate $5.9 million of tax benefits from the Interim Period?

A. To determine the net reduction to income tax expense from the TCJA, NW Natural utilized a results of operations format to perform a "with" and "without" TCJA calculation.

Based on the Company's current projections, which have been updated quarterly to reflect the most recent data, and which include actual results through June 2018, the Stipulating Parties estimate that the amount of the tax benefit accruing during the Interim Period is $5.9 million.[12] The calculation of this amount is shown in Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/2. The Company provided the workpapers for this calculation to all parties through discovery during settlement discussions.

Q. The Stipulating Parties agreed that NW Natural would forego any sharing of deferred amounts that it would otherwise be allowed to recover under any earnings review the Commission may apply before amortization of amounts in the Interim Period Tax Deferral and the EDIT in the TCJA Deferral Dockets. Why did the Stipulating Parties take this approach?

A. As NW Natural explained in its opening brief, the Company believed that an earnings review would apply to determine whether any sharing of the deferred amounts would apply before amortization of those amounts to customers.[13] Staff and CUB recommended that no earnings sharing should apply, and as a compromise and part of the overall terms of the Second Stipulation, the Company agreed to waive any earnings sharing that may otherwise apply.

Q. Please explain the Stipulating Parties' agreement that after approval of the Second Stipulation, the Stipulating Parties will jointly request to the Commission that the TCJA Deferral Dockets be resolved in accordance with the terms of this Second

[12] *In the Matter of Nw. Natural Gas Co., dba NW Natural, Application for Authorization to Defer Certain Expenses Associated with the 2018 US Tax Cuts and Jobs Act*, Docket No. UM 1919, NW Natural's Update to Deferral Application (July 16, 2018).
[13] NW Natural's Opening Brief at 37-38.

Stipulation and jointly request that any amounts deferred in the TCJA Deferral Dockets be amortized in accordance with the terms of the Second Stipulation.

A. The Stipulating Parties recognize that there are two pending deferral dockets, and because the parties have fully resolved the calculation and proposed regulatory treatment of the impacts of the TCJA that are at issue in those dockets, the Stipulating Parties propose that those dockets be resolved in accordance with the terms of this Second Stipulation.

IV. PENSION BALANCING ACCOUNT (PBA)

Q. Please provide a brief overview of the history of the PBA.

A. In 2010, NW Natural initiated Docket No. UM 1475 to address under-recovery of its FAS 87 pension expense. At that time, the Company was collecting $3.8 million of FAS 87 pension expenses in rates annually, but the Company's actual pension expenses exceeded the amounts recovered in rates, and were forecasted to continue to do so for the next several years.[14] To address the Company's under-recovery, NW Natural, Staff, CUB, and the Northwest Industrial Gas Users entered into a stipulation establishing the PBA (PBA Stipulation).[15]

Q. Please describe how the parties to the PBA Stipulation intended for the PBA to operate.

A. The parties agreed to establish a balancing account to book the difference between the $3.8 million collected in rates, and the Company's actual pension expense. The parties expected that, for a period of years, the balance in the account would increase, as the

[14] *In the Matter of Nw. Natural Gas Co., dba NW Natural, Application to Defer Pension Costs*, Docket No. UM 1475, Joint Brief in Support of Stipulation at 1 (Dec. 13, 2010).
[15] *In the Matter of Nw. Natural Gas Co., dba NW Natural, Application to Defer Pension Costs*, Docket No. UM 1475, Order No. 11-051 at 2-3 (Feb. 10, 2011).

Company continued to under-recover its FAS 87 expense.[16] However, the parties expected that in future years, the Company's actual FAS 87 pension expense would begin to decrease to less than $3.8 million, which would decrease the PBA balance over time.[17] Eventually, the balance would become negative, after which the PBA would be terminated.[18] This approach was intended to avoid an increase to the FAS 87 amounts collected in customer rates, while addressing the Company's concerns regarding under-recovery.

Q. Does NW Natural still collect $3.8 million of FAS 87 expense in rates?

A. Yes. The Company still includes $3.8 million of FAS 87 pension expense in rates each year, which is subject to the PBA that records the difference between the $3.8 million in rates and the Company's actual pension expense.[19]

Q. Has the balance in the PBA decreased in the manner anticipated at the time parties entered into the PBA Stipulation?

A. No. Based on the information available at the time in Docket No. UM 1475, the parties expected that NW Natural would continue to under-collect pension expenses and the balance in the account would continue to grow, but after several years the pattern would reverse itself—and eventually net to zero in about 12 to 13 years.[20] Those predictions have not been realized, however, in part due to lower interest rates than had been assumed at the time the pension balancing account was created, as well as changing pension funding requirements.[21] As a result, actual FAS 87 expense has not decreased

[16] Order No. 11-051 at 3.
[17] NW Natural/200, McVay/20.
[18] Order No. 11-051 at 4.
[19] NW Natural/200, McVay/19-20.
[20] Order No. 11-051 at 3.
[21] NW Natural/2600, Wilson/2.

as expected, and the balance in the account has grown to a level much higher than anticipated.

Q. Did the parties in this case propose to increase the FAS 87 pension expense to address the problems with under-recovery?

A. No. The PBA Stipulation provides that no party may request an increase to the FAS 87 pension expenses recovered in rates to be effective prior to the termination of the balancing account.[22] Accordingly, no party individually proposed to increase the FAS 87 pension expense in this case, nor did any party propose a comprehensive solution to address the growing balance in the PBA or the Company's ongoing issues with under-recovery on the record in this proceeding. Instead, through multiple settlement negotiations, the Stipulating Parties have worked together to develop a collaborative approach to draw down and pay off the balance of the PBA and to develop a sustainable approach for future recovery of FAS 87 expense, as detailed in this Joint Testimony. The Stipulating Parties believe this approach is consistent with the PBA Stipulation and fairly and appropriately resolves the issues with the PBA.

Q. Please describe the Stipulating Parties' agreement regarding the PBA.

A. The agreement regarding the PBA has several components:

- The Stipulating Parties agree that NW Natural will "freeze" the PBA as of October 31, 2018, meaning that NW Natural will no longer book FAS 87 expense – net of the $3.80 million of FAS 87 authorized expense collected annually in rates pursuant to the PBA Stipulation – to the PBA.

[22] Order No. 11-051 at 4.

- Effective on November 1, 2018, the rate effective date, NW Natural will reduce the balance in the PBA by:
    - o Applying $5.9 million of amounts deferred in the Interim Period Tax Deferral, plus interest, as an offset to the balance in the PBA; and
    - o Applying the $6.7 million of EDIT (Other Non-Plant) as an offset to the balance in the PBA.
- Beginning on the rate effective date, NW Natural will amortize the balance of the PBA over a ten-year period by collecting $8.2 million per year from all customers through a separate tariff rider. NW Natural agrees that it will amortize no more than this amount for the PBA.
- Beginning on the rate effective date, NW Natural will recover the test year FAS 87 pension expense in base rates. This results in an increase of $8.1 million to NW Natural's revenue requirement.
- The Stipulating Parties request that the Commission find that this Second Stipulation supersedes the PBA Stipulation ordered in Docket UM 1475, Order No 11-051.

Q. Why did the Stipulating Parties agree to freeze the PBA as of October 31, 2018?

A. Because the balance in the PBA has become significantly higher than was originally anticipated, the Stipulating Parties agreed that the Company needed to freeze the account and take additional actions to recover the balance. Additionally, the Stipulating Parties desired to minimize the overall amount of interest accumulating on the balance in the PBA, and thus agreed that freezing the account would be appropriate rather than allowing the account balance to grow and incur additional interest under the provisions that would otherwise be in place under the PBA Stipulation.

Q. Why is it appropriate for NW Natural to recover the balance of the PBA?

A. The Stipulating Parties believe it is appropriate for NW Natural to recover the balance of the PBA because at the time the PBA Stipulation was entered into in Docket No. UM 1475, the parties to the PBA Stipulation agreed that NW Natural should fully recover its FAS 87 pension expense and the costs of financing, and that those costs were prudently incurred. Amounts that accrued to the PBA represented under-recoveries of FAS expense during the effective period of the PBA. Allowing the Company to fully recover the balance of the PBA is consistent with the agreements underlying the PBA Stipulation. In addition, the Commission had an investigation, Docket No. UM 1633, regarding the treatment of pension costs in rates and reaffirmed that utilities should recover their pension costs from ratepayers using FAS 87 pension expense.[23]

Q. Please explain the reasonableness of the proposal to reduce the PBA balance by applying the benefits of tax reform.

A. The Stipulating Parties believe it is important to pay down the balance in the PBA as quickly as possible to minimize additional interest accruing on the account. Accordingly, the Stipulating Parties agreed that it would be prudent to reduce the balance of the PBA by applying certain benefits of tax reform to the account.[24] Specifically, the Stipulating Parties agreed to apply to the PBA $5.9 million for the amounts deferred in the Interim Period Tax Deferral, plus interest, and $6.7 million of EDIT (Other Non-Plant). The calculation of these amounts are described above in Section III and in Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/1-2.

[23] *In the Matter of Pub. Util. Comm'n of Or., Investigation into Treatment of Pension Costs in Utility Rates*, Docket No. UM 1633, Order No 15-226 at 1 (Aug. 3, 2015).
[24] This agreement is consistent with CUB's and the Company's recommendations in their testimony. CUB/300, Jenks/5; NW Natural/2500, Borgerson/11-12.

Q. Why did the Stipulating Parties agree to amortize the balance of the PBA over ten years by collecting $8.2 million per year in rates from customers through a separate tariff rider?

A. As shown in Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/3, the projected balance in the account as of October 31, 2018 is $78,723,167. After reducing the balance of the PBA to reflect certain benefits of tax reform, the projected amount left in the account is $66,162,207.[25] If the remaining balance were to be amortized assuming interest of 7.317 percent (weighted average cost of capital), which was the interest rate agreed to in the PBA Stipulation, the annual amortization would be $9,558,516.[26] While the Stipulating Parties did not agree on a precise interest rate to apply to amortization of the balance, as a compromise, the Stipulating Parties agreed to a lower annual amortization amount of $8.2 million per year for ten years.

Q. Please explain why it is reasonable to increase NW Natural's recovery of FAS 87 pension expense in base rates, resulting in an increase of $8.1 million to revenue requirement?

A. As shown in Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/4, NW Natural forecasted that for the test period, its FAS 87 pension expense would be $11,937,012 per year (Oregon-allocated). As explained above, NW Natural already has embedded $3.8 million in rates, and thus the Stipulating Parties agree that an annual increase of $8,140,957 is reasonable to ensure that the Company can recover its test year pension expense. This portion of the settlement simply implements

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[25] Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/3.
[26] Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/3.

standard ratemaking with respect to FAS 87 cost recovery on a going-forward basis, and was advocated by the parties in this case.[27]

Q. Why do the Stipulating Parties request that the Commission find that this Second Stipulation supersedes the PBA Stipulation ordered in Docket UM 1475, Order No 11-051?

A. The Stipulating Parties recognize that the treatment of the PBA is currently governed by Order No. 11-051, and the agreement in this Second Stipulation provides for different treatment of the PBA. For this reason, the Stipulating Parties request that the Commission expressly find that the Second Stipulation supersedes the PBA Stipulation in Order No. 11-051.

V. REASONABLENESS OF THE SECOND STIPULATION

Q. What is the basis for the Second Stipulation?

A. The Second Stipulation is a compromise based on the record in this case, which includes NW Natural's Initial and Supplemental Filings in Docket No. UG 344, and five rounds of testimony by NW Natural and the parties. Additionally, NW Natural responded to over 400 data requests from Staff, CUB, and AWEC, and provided updates to the data responses as necessary and appropriate. Over the course of the settlement discussions, which were lengthy and detailed, the Stipulating Parties resolved their differences regarding the issues addressed in the Second Stipulation through dialogue, negotiations, and compromise to reach a fair result.

[27] In their testimony, both CUB and AWEC recommended that the Company move to standard ratemaking to collect FAS 87 pension expense. CUB/300, Jenks/4; AWEC/500, Mullins/3.

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

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

Q. Please explain why the Stipulating Parties believe that the Commission should adopt the Second Stipulation?

A. The Stipulating Parties have carefully reviewed NW Natural's Initial Filing, Supplemental Filing, Reply Filing, Surrebuttal Filing, and NW Natural's responses to data requests. The Stipulating Parties have thoroughly analyzed the issues addressed in the Second Stipulation during multiple days of settlement conferences, and have worked together to create substantive exhibits supporting all relevant calculations. The Stipulating Parties believe that the agreements in the Second Stipulation provide a fair and reasonable resolution of the remaining impacts of the TCJA and the PBA,[28] and the resulting rates are fair, just and reasonable.

Q. Please elaborate.

A. The Stipulation represents a reasonable compromise for many reasons, including the following: (1) the Second Stipulation, taken together with the agreements in the First Stipulation, results in an overall average rate increase of approximately 4.57 percent; (2) the Second Stipulation represents a fair settlement of the remaining impacts of the TCJA and the PBA; (3) the agreement regarding the impacts of the TCJA appropriately calculates the impacts and returns the benefits of the TCJA to customers in a timely manner; (4) the agreement regarding the PBA is consistent with the spirit and intent of

[28] As noted above, the Stipulating Parties continue to litigate the sharing of revenues produced by optimization of certain NW Natural assets and the Company's Interstate Storage operations.

the settlement agreement giving rise to the PBA in Docket No. UM 1475; and (5) the settlement of the issues presented in the Second Stipulation significantly reduces the scope of litigation in this proceeding among the Stipulating Parties.

Q. Mr. Borgerson, why does NW Natural believe the Second Stipulation is reasonable with respect to resolving the impacts of the TCJA?

A. While the Company had previously recommended resolving the TCJA issues in the TCJA Deferral Dockets, the Company believes that resolution of these issues in the rate case is appropriate because over the course of the negotiations, the Stipulating Parties were able to spend a significant amount of time and attention to carefully consider the calculations and proposed regulatory treatment of the benefits of tax reform. NW Natural believes that the Second Stipulation provides a fair resolution of the impacts of the TCJA. In particular, NW Natural believes that the calculation and proposed treatment of the EDIT amounts will provide customers with the full benefits of tax reform on a timely basis, and give appropriate deference to the ARAM limitations for plant-related EDIT to avoid a normalization violation.

Q. Mr. Wilson, why does NW Natural believe the Second Stipulation is reasonable regarding the resolution of the PBA?

A. The Company believes that the agreement in the Second Stipulation provides a fair and comprehensive approach to resolving the PBA. The Company agrees with Staff and CUB that it is important to draw down the balance in the PBA quickly, and that applying some of the benefits of tax reform to accomplish this end is a thoughtful and creative approach to reduce the impacts to customers of doing so. Paying down the balance quickly and minimizing the interest incurred on the balance will benefit customers by reducing the overall amount that customers pay over time. Finally, the Company believes that the agreement regarding the PBA is consistent with the spirit and intent of the PBA Stipulation, and represents a fair and reasonable collection from customers.

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

A. Staff supports this Second Stipulation as a reasonable compromise of the tax reform and the pension balancing account issues in this rate case. Staff believes the terms of the Stipulation are consistent with Commission policy and precedent. Staff's position on these adjustments is supported by its testimony, a further evaluation of the available information and of risks, including discussions in settlement and workshops, and the conclusion that the agreed-to adjustments fall within a reasonable range of outcomes at this time. Staff believes that the First and Second Stipulations, considered together, result in overall rates that are fair just and reasonable.

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

A. CUB believes the Second Stipulation is reasonable because it accurately captures the benefits of the TCJA to the Company and flows them through to ratepayers in a concrete manner. Throughout the record in this proceeding, CUB argued that it was imperative to find a workable and creative solution to lead to the termination and closure of the Company's PBA. By capturing the TCJA benefits and applying them to the remaining balance of the PBA, the Second Stipulation enables customers to realize those benefits in a way that also shields them from an increasingly expanding PBA due to the cost of capital interest rate that was used going into this proceeding. Ensuring that the PBA definitively reaches zero in a ten-year window from the Stipulation also avoids ongoing issues associated with intergenerational equity. CUB believes the Second Stipulation is in the public interest and benefits customers by protecting them from an increasingly expanding account while capturing the benefits of the TCJA.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UG 344

JOINT TESTIMONY IN SUPPORT OF SECOND STIPULATION

EXHIBIT 201

September 14, 2018

	System Wide Deferred Tax Remeasurement A/		Gross Up Factor		Excess Deferred Income Tax (EDIT) Liability		Oregon Allocation		Oregon Allocated EDIT
Plant	$ 140,619	x	1.36	=	$ 191,242	x	90%	=	$ 172,118
Non-Plant - Other	5,450	x	1.36	=	7,412	x	90%	=	6,671
Non - Plant - Gas Reserves	10,767	x	1.36	=	14,643	x	100%	=	14,643
	$ 156,836				$ 213,297				$ 193,432

		Oregon Allocated EDIT	Applied in Settlement: Immediately	Year 1	Year 2	Year 3	Year 4	Year 5	Rate Base
Plant	1/	$ 172,118	$ -	$ 3,263	$ 3,263	$ 3,263	$ 3,263	$ 3,263	$ 8,156
Non-Plant - Other	2/	6,671	6,671	-	-	-	-	-	6,671
Non - Plant - Gas Reserves	3/	14,643	-	2,929	2,929	2,929	2,929	2,929	7,322
		$ 193,432	$ 6,671	$ 6,191	$ 6,191	$ 6,191	$ 6,191	$ 6,191	$ 22,149

A/ Amounts referenced in NW Natural/2501 Borgerson/1

1/ Annual amount included in rate case revenue requirement; Revenue Requirement rate base effect = half of the 5 year amortization total
2/ Total amount applied to pension balancing account; Revenue Requirement rate base effect = entire amount
3/ Annual amount included in separate rate rider; Revenue Requirement rate base effect = half of the 5 year amortization total

Interim Period Tax Deferral ($000)

Projected Net Operating Revenues

Without Tax Reform	41,382,000
With Tax Reform	45,713,000
Difference - With/Without	4,331,000
Tax Gross-up for refund	1.36
Estimated Refund - Interim Deferral	5,890,160

Amortization of Balancing Account - 10 years

Projected Balance - October 31, 2018	78,723,167
Application of Non-ARAM/Non-Gas Reserve EDIT	(6,670,800)
Application of Interim Deferral	(5,890,160)
Remainder to be Amortized	66,162,207
Amortization assuming WACC - 7.317%	9,558,516
Annual Amortization - Settlement	8,200,000

Derivation of Incremental Pension Expense Recovery

Test Year Total Pension Expense (FAS 87)		15,450,000
Service Cost (Eligible for Capitalization)	5,750,000	
Capitalized at 35.96%		2,067,700
Total O&M		13,382,300
Oregon Allocation		89.2%
Total Test Year Oregon O&M FAS 87		11,937,012
Amount included in revenue requirement expense		3,796,055
Incremental for Second Stipulation		8,140,957
Amount applied (above rounded)		8,100,000

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EXHIBIT 202

September 14, 2018

NW Natural
UG 344
Twelve Months Ended October 31, 2019
(000)

	SUMMARY SHEET	2017 Results Per Company Filing at Present Rates	Adjustments	2019 Results Per Company Filing	Company Filed Required Change for Reasonable Return	Company Filed 2019 Results at Reasonable Return	Adjustments to Company 2019 Results	Adjusted 2019 Company Results (3) + (6)	Required Change for Reasonable Return	Results at Reasonable Return (7) + (8)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operating Revenues**									
2	General Business	637,346	(27,330)	610,016	37,816	647,831	3,263	613,279	23,132	636,410
3	Transportation	17,390	(743)	16,647	-	16,647	-	16,647	-	16,647
4	Decoupling	11,599	(11,599)	-	-	-	-	-	-	-
5	WARM	(16,622)	16,622	-	-	-	-	-	-	-
6	Miscellaneous Revenues	3,564	(138)	3,426	-	3,426	70	3,496	-	3,496
7	Total Operating Revenues	653,277	(23,189)	630,089	37,816	667,904	3,333	633,422	23,132	656,553
8	**Operating Expenses**									
9	Gas Purchased	291,761	(14,907)	276,854	-	276,854	-	276,854	-	276,854
10	Transmission & Storage	7,428	(111)	7,317	-	7,317	(16)	7,301	-	7,301
11	Distribution	47,904	(355)	47,549	-	47,549	(240)	47,309	-	47,309
12	Customer Accounts	19,047	(855)	18,191	-	18,191	-	18,191	-	18,191
13	Customer Service	4,817	(301)	4,516	-	4,516	(100)	4,416	-	4,416
14	Sales	4,229	73	4,302	-	4,302	-	4,302	-	4,302
15	OPUC Fees	1,960	(70)	1,890	113	2,004	10	1,900	69	1,970
16	Franchise Fees	15,483	(550)	14,933	896	15,829	79	15,012	548	15,560
17	Uncollectibles	716	(7)	710	43	753	4	713	26	740
18	General Operations & Maintenance	3,916	539	4,456	-	4,456	-	4,456	-	4,456
19	Admin & General Expenses	44,003	13,115	57,118	-	57,118	(2,464)	54,654	-	54,654
20	Environmental Rider	5,000	-	5,000	-	5,000		5,000	-	5,000
21	Total Operation & Maintenance	446,263	(3,427)	442,836	1,053	443,889	(2,727)	440,109	644	440,753
22	Depreciation & Amortization	71,362	5,009	76,371	-	76,371	(1,697)	74,674	-	74,674
23	Taxes Other than Income	26,214	2,337	28,551	-	28,551	(254)	28,297	-	28,297
24	Equity Floatation		1,198	1,198	-	1,198	(1,198)	-	-	-
25	Income Taxes	35,096	(19,660)	15,435.6727	9,927	25,363	2,476	17,912	6,073	23,984
26	Total Operating Expenses	578,935	(14,544)	564,392	10,980	575,372	(3,401)	560,991	6,717	567,708
27	Net Operating Revenues	74,342	(8,645)	65,697	26,836	92,532	6,734	72,431	16,415	88,846
28	**Average Rate Base**									
29	Utility Plant in Service	2,576,151	13,674	2,831,198	-	2,831,198	(55,972)	2,775,226	-	2,775,226
30	Less: Accumulated Depreciation & Amortization	(1,143,047)	(6,365)	(1,244,909)	-	(1,244,909)	32,691	(1,212,218)	-	(1,212,218)
31	Accumulated Deferred Income Taxes	(396,737)	(70)	(409,841)	-	(409,841)	22,912	(386,929)	-	(386,929)
32	Accumulated Deferred Inv. Tax Credit		-	-	-	-	-	-	-	-
33	Net Utility Plant	1,036,366	7,238	1,176,449	-	1,176,449	(369)	1,176,079	-	1,176,079
34	Plant Held for Future Use	-	-	-	-	-	-	-	-	-
35	Other Rate Base		-	-	-	-	-	-	-	-
36	Aid in Advance of Construction	(3,298)	(179)	(3,476)	-	(3,476)	-	(3,476)	-	(3,476)
37	Customer Deposits	(4,189)	340	(3,849)	-	(3,849)	(291)	(4,140)	-	(4,140)
38	Gas Inventory	54,775	(19,402)	35,373	-	35,373	-	35,373	-	35,373
39	Materials & Supplies	9,087	1,312	10,399	-	10,399	-	10,399	-	10,399
40	Weatherization Loans	-	-	-	-	-	-	-	-	-
41	Prepayments	-	-	-	-	-	-	-	-	-
42	Misc. Deferred Debits & Credits	-	-	-	-	-	-	-	-	-
43	Misc. Rate Base Additions/(Deductions)	-	-	-	-	-	-	-	-	-
44	Total Average Rate Base	1,092,742	122,154	1,214,895	-	1,214,895	(660)	1,214,235	-	1,214,235
45	**Rate of Return**	6.803%		5.408%		7.616%		5.965%		7.317%
46	**Implied Return on Equity**	5.582%		5.582%		10.000%		6.696%		9.400%

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UG 344

JOINT TESTIMONY IN SUPPORT OF SECOND STIPULATION

EXHIBIT 203

September 14, 2018

UG 344 Revenue Requirement Components ($000)
Amounts are inclusive of revenue sensitive effects

		Revenue	% Change
Stipulation 1		16,000	2.55%
Stipulation 2 Change to Revenue Requirement			
Amortization of ARAM EDIT	(3,263)		
Rate Base Effect of EDIT Amortizations	2,063		
Incremental FAS 87 Expense Recovery	8,332		
Total Stipulation 2		7,132	1.14%
Sum of Stipulations 1 and 2		23,132	3.69%
Stipulation 2 Base Rate Riders			
Amortization of PBA	8,435		
Amortization of Gas Reserves EDIT	(2,929)		
Total Riders		5,506	0.88%
Total Incremental Revenue - UG 344		28,638	4.57%

Pre-Rate Case Revenue (excl Miscellaneous)	626,663