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February 14, 2019

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:

Enclosed for filing in the above-referenced docket is an electronic copy of the Phase II Joint Testimony in Support of the Third Stipulation on behalf of Northwest Natural Gas Company, the Public Utility Commission of Oregon Staff, and the Oregon Citizens' Utility Board (NW Natural-Staff-CUB/400-403). The confidential testimony will be provided on Huddle.

Please contact this office with any questions.

Sincerely,

Alisha Till

Alisha Till
Paralegal

Attachments

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 344

Phase II

Joint Testimony in Support of Third Stipulation

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

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

February 14, 2019

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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 Joint 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 Program Manager, Rates and Accounting, 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 third stipulation filed in Docket No. UG 344 on February 4, 2019 (Third Stipulation). The Third Stipulation is joined by NW Natural, Staff, CUB, and the Alliance of Western Energy Consumers (AWEC) (collectively, the Stipulating Parties). The Third Stipulation resolves the issues raised in Phase II of this proceeding regarding the treatment of the Company's pension balancing account (PBA) and the impacts of the 2017 federal Tax Cuts and Jobs Act (TCJA) on the Company's accumulated deferred income tax (ADIT) and related remeasurement of excess deferred income taxes (EDIT) and the tax benefits resulting from the TCJA during the period January 1, 2018 to October 31, 2018 (Interim Period).

II. BACKGROUND

Q. Please summarize the resolution of Phase I of this proceeding.

A. In Phase I of this proceeding, the Stipulating Parties filed a Stipulation on August 6, 2018 (First Partial Stipulation) resolving all but three issues in the docket. NW Natural, Staff and CUB filed a second stipulation (Second Partial Stipulation) on September 7, 2018, which addressed two of the remaining three issues—the Pension Balancing Account (PBA) and the unresolved impacts of the 2017 federal Tax Cuts and Jobs Act (TCJA). The third issue, the sharing of optimization revenues from storage and optimization activities, was litigated by all parties. AWEC did not join and objected to the Second Partial Stipulation. In its Order No. 18-419, the Commission adopted the First Partial Stipulation, adopted several terms from the Second Partial Stipulation and rejected the remainder, and resolved the issue regarding sharing of optimization revenues.[1]

Q. Please describe the Commission's treatment of the Second Partial Stipulation in Order No. 18-419.

A. Consistent with the Second Partial Stipulation the Commission terminated operation of the PBA by ordering that it be "frozen" and authorized, on a going-forward basis, the recovery of the Company's current FAS 87 pension expense in rates.[2] However, the Commission rejected the portions of the Second Partial Stipulation that would have allowed the

[1] *In the Matter of Nw. Natural Gas Co., dba NW Natural, Request for a Rate Revision*, Docket No. UG 344, Order No. 18-419 (Oct. 26, 2018).
[2] Order No. 18-419 at 18.

Company to (a) apply certain deferred TCJA benefits to the PBA; (b) amortize the PBA balance over a ten-year period, with a lowered interest rate; and (c) amortize the remaining deferred TCJA benefits for the benefit of customers.[3] The Commission stated that, while it commended the efforts of NW Natural, Staff, and CUB to reach a settlement, and encouraged further work to reach a practical solution, the Commission was concerned that there was not sufficient evidence in the record to support the Second Partial Stipulation's result.[4] Therefore, the Commission ordered further proceedings in Phase II of this docket to allow the parties to address these issues.[5]

Q. Please describe the events in Phase II of this proceeding.

A. Following the Commission's Order No. 18-419, Administrative Law Judge Allan Arlow convened a Prehearing Conference to establish a procedural schedule for Phase II. In accordance with Judge Arlow's November 13, 2018 Prehearing Conference Memorandum, NW Natural filed Opening Testimony on November 21, 2018. NW Natural also filed Supplemental Testimony on November 29, 2018. Staff, CUB, and AWEC filed Rebuttal Testimony on December 12, 2018. The parties convened an initial settlement conference on December 17, 2018, but did not achieve a settlement on that date. On January 4, 2019, NW Natural filed its Reply Testimony and Staff, CUB, and AWEC filed Cross-Answering Testimony. The parties convened a second settlement conference on January 9, 2019, as well as a follow-up settlement conference on January 14, 2019. As a result of those discussions, the Stipulating Parties reached a settlement of all remaining

[3] Order No. 18-419 at 18.
[4] Order No. 18-419 at 18.
[5] Order No. 18-419 at 19.

issues in this proceeding. The Third Stipulation memorializes the Stipulating Parties' agreements reached at the settlement conferences held on January 9 and 14, 2019.

Q. Did the parties conduct discovery in Phase II of this case?

A. Yes. During Phase II of the proceeding, the Parties reengaged in discovery, and NW Natural received and answered an additional 38 Data Requests.

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 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. In order to ensure that customers receive the benefits of this lower tax rate, the parties have considered the following three impacts:

(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 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 remeasurement of EDIT and Interim Period Benefits resulting from 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 were docketed as UM 1919 and UM 1924, respectively.

Q. Were 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. The Commission's Order No. 18-419 adopted the First Stipulation and fully resolved the application of the lower tax rate on a going-forward basis.

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

A. Yes. The Third Stipulation addresses the remeasurement and regulatory treatment of the Company's EDIT resulting from the TCJA and the calculation and regulatory treatment of the TCJA benefits for the Interim Period.

Q. Please describe the terms in the Third Stipulation regarding the remaining impacts of the TCJA.

A. The Third Stipulation includes the following elements related to the TCJA:

- The Joint Parties agree that NW Natural properly recorded the remeasurement of regulated utility EDIT resulting from the TCJA. Specifically, NW Natural recorded a remeasurement of regulated utility deferred income taxes of $158.6 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 $143.0 million, $4.8 million, and $10.8 million, respectively. The sum of these figures, on an Oregon allocated basis and grossed up for income taxes, equals $196.2 million. These amounts are included in Exhibit A to the Third Stipulation.
- NW Natural will return to all customers, on an equal percentage of margin basis, EDIT (Plant) subject to the average rate assumption method (ARAM) in the amount of $3.3 million per year ($3.4 million including revenue sensitive effects) through a

separate tariff rider beginning on the effective date for the rate change resulting from this Third Stipulation (the "rate effective date").[6]

- NW Natural will return to sales customers annually $2.93 million ($3.0 million including revenue sensitive effects) of EDIT (Non-Plant Gas Reserves), on an equal cent per therm basis, over five years through a separate tariff rider beginning on the rate effective date.[7]
- NW Natural will provide a benefit to customers by applying $5.44 million of EDIT (Other Non-Plant) as an offset to the PBA as described in Paragraph 10 of the Third Stipulation.
- NW Natural will credit to customers $7.07 million of the TCJA benefits deferred between January 1, 2018 and October 31, 2018 (Interim Period Deferral), inclusive of interest, as an offset to the PBA as described in Paragraph 10 of the Third Stipulation.
- On the rate effective date, rate base will be increased by $15.38 million to reflect the EDIT being provided to customers as part of the Third Stipulation. This increase to rate base results in a $1.43 million increase to revenue requirement.[8]
- The rate base addition identified above uses a five-year average of amounts related to ARAM EDIT amortizations and gas reserves EDIT amortizations. At the time of the next rate case, to the extent that less than five years would have elapsed from the rate effective date through the effective date of rates in the next rate case, the Company will calculate a true-up amount based on the difference between the revenue requirement identified above and what the revenue requirement would have been had

[6] Exhibit NW Natural-Staff-CUB/401.
[7] *Id.*
[8] *Id.*

the actual period been used. The difference in revenue requirement will be multiplied by the number of years that rates resulting from this stipulation will have been in effect.

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

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

A. Yes. The remeasurement of EDIT has been discussed extensively in the Company's testimony in both Phase I and Phase II of this proceeding and, after reviewing the Company's testimony and discussing this issue in workshops and settlement conferences, the Joint Parties agree that the Company appropriately remeasured the EDIT resulting from the TCJA.[9] The amounts for the different categories of EDIT are shown in Exhibit A to the Third Stipulation.

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

[9] NW Natural/2500, Borgerson/13-16; NW Natural/2900, Borgerson/12-16; NW Natural/3200, Borgerson/2-3.

A. As NW Natural explained in its testimony, the Company remeasured federal accumulated deferred income taxes (ADIT) in December 2017, when the TCJA was enacted, using the newly lowered income tax rate.[10] The change in ADIT was determined by measuring the temporary differences using a 21 percent federal statutory income tax rate and comparing this result with the federal ADIT balance existing immediately prior to the remeasurement.[11] 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.[12] The Company provided exhibits to its testimony in Phase II of this proceeding that showed the Company's calculation of the remeasurement and proposed amortization of these amounts.[13]

In NW Natural's case, the remeasurement resulted in the identification of a $158.6 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 previously included in utility ratemaking. 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. This gross-up increases the benefit to customers to $196.2 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. Why are the different categories of EDIT discussed separately?

[10] NW Natural/2900, Borgerson/13.
[11] NW Natural/2900, Borgerson/13.
[12] NW Natural/2900, Borgerson/13.
[13] NW Natural/2906, NW Natural/2907, and NW Natural/2908.

A. There are different ratemaking considerations for the different categories of EDIT. As NW Natural explained in its Phase II Reply Testimony:

- The amortization of EDIT (Plant) is subject to normalization requirements, which set a limit on how quickly EDIT should be returned to customers.[14] On the other hand, there are no normalization restrictions on the timing of amortization of Non-Plant related EDIT balances.[15]
- The deferral for general EDIT (Non-Plant Other) relates to all customer classes. As a result, the only rate design consideration would be returning this benefit in a way that would benefit all customers.[16]
- There are rate design considerations that should be considered before the provision of benefits associated with EDIT (Non-Plant Gas Reserves) to customers is determined. Specifically, these benefits should be provided to the customers that have paid for gas reserves in their rates, namely sales customers.[17]

Q. Please expand on the limits for how quickly EDIT (Plant) can be returned to customers.

A. Normalization requirements set a "speed limit" that governs the return of EDIT (Plant) to customers.[18] If the Company returns EDIT (Plant) faster than is allowed by the "speed limit," the Company could be subject to a normalization violation, which, among other consequences, would result in a dollar-for-dollar penalty of the amounts returned too quickly.

[14] NW Natural/3200, Borgerson/6.
[15] NW Natural/3200, Borgerson/6.
[16] NW Natural/3200, Borgerson/6.
[17] NW Natural/3200, Borgerson/6.
[18] NW Natural/2900, Borgerson/17-19.

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

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

Q. Why did the Joint 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.[19] 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.[20] Because NW Natural has adequate data to use ARAM for all years, ARAM was used.

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

A. The Joint Parties determined that $3.3 million of EDIT (Plant) per year would be returned to customers in base rates, beginning on the rate effective date. As shown in Exhibit A to the Third Stipulation, the amount of $3.3 million is the average of the first five years of grossed up ARAM amortization.

Q. Why is the amount EDIT (Plant) agreed to by the Joint Parties reasonable?

A. The Joint Parties agreed that returning $3.3 million of EDIT (Plant) per year is 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. Additionally, returning this amount to customers will provide a timely return of the benefits of tax reform. Finally, the

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[19] NW Natural/2900, Borgerson/18-19.
[20] NW Natural/2900, Borgerson/19-20.

Joint Parties do not expect that returning $3.3 million per year will result in a normalization violation.

Q. How does returning $3.3 million per year of EDIT (Plant) avoid a normalization violation?

A. As provided in §13001(d)(1) of the TCJA, a normalization violation occurs if excess tax reserves are reduced more rapidly or to a greater extent than such reserves would be reduced under ARAM. The ARAM amortization schedule provided for under these normalization rules sets the 'speed limit' but does not prohibit returning the excess reserves more slowly. As an example, if an amortization schedule provided for amortization of $10, $10, $12, and $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 $3.3 million annual inclusion in base rates of EDIT amortization is the average of the first five years of grossed up ARAM amortization. Although $3.3 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 the rate effective date that can be applied in these later periods.

Q. Without agreeing to a flat amount for the next five years, would the annual ARAM amortization amounts vary from year to year?

A. Yes. The Joint Parties anticipate that annual ARAM amortization amounts will vary, perhaps significantly, from year to year. The Joint Parties have closely reviewed the proposed amortization of $3.3 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 Joint Parties balanced the need to avoid a normalization violation with the need to timely return the TCJA benefits to customers.

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

A. The Joint Parties determined that NW Natural should return to sales customers annually $2.93 million of EDIT (Non-Plant Gas Reserves), on an equal cent per therm basis, over five years through a separate tariff rider beginning on the rate effective date. As shown in Exhibit A to the Third Stipulation, this amount, which totals $14.64 million including gross up, represents 100 percent of the EDIT balance for gas reserves.

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

A. The Joint 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, affect sales customers only.[21] As a result, a separate tariff rider is being used to return EDIT benefits related to gas reserves to the same customer group.

Regarding the time period for returning the EDIT (Non-Plant Gas Reserves), NW Natural had proposed to return these benefits to customers over 20 years, and Staff noted that there is no restriction on the timing for return of these benefits, and the Commission could direct NW Natural to return the benefits immediately or over time.[22]

[21] NW Natural/2900, Borgerson/17; CUB/600, Gehrke-Jenks/11; AWEC/800, Mullins/10.
[22] NW Natural/3200, Borgerson/20; Staff/1700, Fox/23.

The Joint Parties agreed to return the EDIT (Non-Plant Gas Reserves) benefit over five years as a reasonable compromise.

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

A. The Joint Parties determined that $5.44 million of EDIT (Other Non-Plant) would be applied to reduce the balance of the PBA. As shown in Exhibit A to the Third Stipulation, the EDIT (Other Non-Plant) amount is $4.88 million system wide and $5.44 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).

Q. In Reply Testimony in Phase II, NW Natural had calculated the EDIT (Other Non-Plant) amount to be $6.5 million. Why did the Joint Parties agree to reflect a different amount for the EDIT (Other Non-Plant) in the Third Stipulation?

A. As discussed in greater detail in Section IV, the Joint Parties agreed to reduce the PBA balance by $10.5 million as part of the agreement regarding the PBA. This reduction to the PBA balance impacts the amount of the remeasurement of the EDIT (Other Non-Plant), because this EDIT balance included an amount for the remeasurement of the deferred tax liability balance related to the PBA. By reducing the PBA by $10.5 million, the associated portion of the deferred tax liability is also excluded, which reduces the balance of the EDIT (Other Non-Plant) by $1.5 million.

Q. What amount did the Joint Parties agree should be credited to the benefit of customers as a reduction to the PBA for the Interim Period Deferral?

A. The Joint Parties agreed that the Interim Period Deferral amount of $7.07 million, inclusive of interest, should be applied to reduce the balance of the PBA. As shown in Exhibit A to the Third Stipulation, the Oregon Interim Period Deferral benefit amount was calculated to be $4.99 million[23] (or $6.78 million with gross up), and $7.07 million amount also includes accrued interest on the deferral. This amount represents 100 percent of the Oregon jurisdiction allocation of the Interim Period Deferral.

Q. Did AWEC, NW Natural, and Staff present different amounts for the Interim Period Deferral in Phase II of this proceeding?

A. Yes—however those differences resulted from those parties taking different approaches to grouping the different types of benefits resulting from the TCJA described above.[24] For example, AWEC grouped together the Interim Period Deferral amount described above with the EDIT (Other Non-Plant) and a portion of the EDIT (Plant), and Staff offered a similar approach.[25] NW Natural, on the other hand, described each type of benefit separately.[26] For purposes of the Third Stipulation, the Stipulating Parties have agreed to discuss each type of TCJA benefit separately, and have agreed to the Interim Period Deferral amount as presented by NW Natural.[27]

Q. What method did NW Natural use to calculate the $7.07 million of tax benefits for 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.[28] The "with" and "without" TCJA calculation prepared by NW Natural calculates the Oregon regulated gas utility after-tax earnings, for the 2018 ten-month deferral period, using a 21 percent federal income tax rate (i.e., "with" TCJA) and comparing that with the after-tax

[23] *See also* NW Natural/2901 and NW Natural/3200, Borgerson/6.
[24] NW Natural/3200, Borgerson/14-15.
[25] AWEC/700, Mullins/4; Staff/1700, Fox/21-22.
[26] NW Natural/3200, Borgerson/15, 20-21.
[27] *See also* NW Natural/2901 and NW Natural/3200, Borgerson/6.
[28] NW Natural/2900, Borgerson/6.

earnings that would have occurred using a 35 percent federal income tax rate (i.e., "without" TCJA).[29] This comparison is a straight-forward and reliable way to identify the additional earnings that occurred as a result of the lower federal tax rate in the period in which the lower rate was in effect.[30]

Q. Did NW Natural update its calculation of the Interim Period Deferral amount during Phase II of this proceeding?

A. Yes. During Phase I of this proceeding—which was proceeding concurrently with the Interim Period—NW Natural provided its best estimates for the Interim Period Deferral amount on an on-going basis, relying on a combination of actual data and forecasts. By the time Phase II of the proceeding had been initiated, the Interim Period had concluded. Accordingly, in its Phase II Opening Testimony, NW Natural provided an updated calculation for the Interim Period Deferral amount using the "with and without" approach and using only the Company's actual results (and not forecasts).[31]

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

A. Yes. The Stipulating Parties agreed to a $15.38 million increase to rate base reflecting the EDIT provided to customers through the Third Stipulation.

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 $15.38 million is

[29] NW Natural/2900, Borgerson/7.
[30] NW Natural/2900, Borgerson/7.
[31] NW Natural/2901; NW Natural/2900, Borgerson/7-8.

shown in Exhibit A to the Third Stipulation at lines 12-16. The rate base adjustment is comprised of all of the non-ARAM EDIT (Other Non-Plant) amounts, totaling $5.44 million, and half of the five-year amortizations of EDIT subject to ARAM and Non-Plant Gas Reserve (totaling $15.48 million). After applying the “gross down” factor, the total rate base adjustment is $15.38 million. The use of a five-year period for the adjustment to rate base was a compromise as part of the settlement of this issue.

Q. What is the revenue requirement impact of the rate base adjustment?

A. The increase to rate base results in a $1.43 million increase to revenue requirement.

Q. Please describe the Stipulating Parties’ agreement regarding the rate base and revenue requirement true up that will occur if NW Natural files a rate case within the next five years.

A. At the time of the next rate case, to the extent that less five years would have elapsed from the rate effective date through the effective date of rates in the next rate case, the Company will calculate a true-up amount based on the difference between the revenue requirement identified in Paragraph 6 of the Third Stipulation and what the revenue requirement would have been had the actual period been used. The difference in revenue requirement will be multiplied by the number of years that rates resulting from this stipulation will have been in effect.

Q. Why did the Joint Parties agree to this true up?

A. The rate base addition described above (and in Paragraph 6 of the Third Stipulation) uses a five-year average of the amounts related to ARAM EDIT amortizations and gas reserves EDIT amortizations. To the extent that a rate change occurs before five years have elapsed, this provision trues up the amounts to be amortized to reflect the actual amortization period rather than a five-year period reflected in Paragraph 6.

Q. Under the Third Stipulation, NW Natural will forgo sharing of deferred amounts that it might 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 Joint Parties take this approach?

A. As NW Natural explained in its testimony in Phase II of this proceeding, by statute, the Commission is required to perform an earnings review prior to amortizing the deferred tax amounts for the benefit of customers.[32] Staff, on the other hand, advocated that no earnings review should apply.[33] CUB argued that if an earnings test was applied to the tax deferral that an earnings test should also apply to the Pension Balancing Account.[34] As a compromise and part of the overall terms of the Third Stipulation, the Company agreed to waive any earnings sharing that may otherwise apply. As explained in the Company's Phase II Reply Testimony, the Company's agreement to waive earnings review provides an estimated benefit to customers of $9.55 million for the remeasurement of EDIT and $4.99 million for the Interim Period TCJA benefits, assuming the Commission applied the earnings test to the tax deferral and did not apply an earnings test to the Pension Balancing Account.[35]

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

[32] NW Natural/2900, Borgerson/10-11, 24-27, NW Natural/3200, Borgerson/11-14.
[33] Staff/1700, Fox/15-16.
[34] CUB/500, Gehrke-Jenks/12-13.
[35] NW Natural/3200, Borgerson/4-5.

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

A. The Stipulating Parties recognize that the TCJA Deferral Dockets are still pending, 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 the Third 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 far exceeded the amounts recovered in rates, and were forecasted to continue to do so for the next several years.[36] The Company had initially requested to defer its excess FAS 87 expense in 2010, with the intent of amortizing the deferred amounts in its next rate case—filed in 2011—and resetting its FAS 87 in that case going forward. However, Staff, CUB, and the Northwest Industrial Gas Users (now AWEC)[37] opposed the deferral, and instead agreed to establish the PBA, which would hold the amount of FAS 87 recovered in rates flat, while the Company would book excess FAS 87 expense to the account. At that time, the parties expected that the excess FAS 87 expenses recorded to the account would

[36] *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).
[37] In 2018, the Northwest Industrial Gas Users combined with the Industrial Customers of Northwest Utilities and rebranded as the Alliance of Western Energy Consumers, or AWEC.

reverse to zero in the coming years.[38] The parties agreed that the amounts in the account would earn interest at NW Natural's authorized rate of return (ROR), and that amount in the account could be amortized after the account turned negative.[39] The parties memorialized this agreement by entering into a stipulation in Docket No. UM 1475, which established the PBA (PBA Stipulation).[40]

Q. Did the balance in the PBA reverse as anticipated?

A. No. The Joint Parties recognized that for some time after the PBA established NW Natural would continue to under-collect pension expenses and the balance in the account would continue to grow; however, based on information available at the time, the Joint Parties believed that the pattern would reverse itself—and that the PBA would eventually net to zero in about 12 to 13 years.[41] Those predictions were not realized, however, due primarily to unforeseen market forces occurring in the years after the PBA's adoption. As a result, the Company's FAS 87 expense remained high, and amounts in the PBA increased above forecasted levels.

Q. What were the primary factors contributing to the higher than anticipated PBA balance?

A. There were several factors that contributed to the higher than anticipated PBA balance. As explained in the Company's Phase II Reply Testimony, the primary driver of the increased balance was the unexpected declines in the discount rate.[42] Other significant factors include the decline in the Expected Return on Asset (EROA) during the life of the

[38] *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 3 (Feb. 10, 2011).
[39] Order No. 11-051 at 4.
[40] Order No. 11-051 at 2-3.
[41] Order No. 11-051 at 3.
[42] NW Natural/3100, Wilson/14.

PBA, as well as the difference between expected returns and actual returns, and revised mortality tables.[43] In addition to the declines in the discount rate, EROA, and revised mortality tables, a change in the legal requirements for pension funding that occurred shortly after the PBA was created also contributed to the growth of the PBA balance.

Q. Please describe the change in the legal requirements for pension funding.

A. In 2012, Congress passed comprehensive pension funding relief, in the Moving Ahead for Progress Act for the 21st Century (MAP-21).[44] MAP-21 allowed plans to use a higher interest rate in the short term when measuring the liability for pension funding purposes, which temporarily improves a plan's funded status and decreases the amount of contributions required.[45] This funding relief was extended in the Highway and Transportation Act of 2014, which provided for an additional five years for the transition of MAP-21.[46]

Q. Did NW Natural advise parties and the Commission of the funding relief provided by MAP-21 and that the funding relief may impact the PBA?

A. Yes. NW Natural explained the situation in testimony filed with the Commission in 2012 and 2014. Specifically, in August 2012, NW Natural filed testimony in its general rate case (UG 221), in which the Company explained that President Obama has signed MAP-21 into law, which reduced the required pension contributions in the near term.[47] Later, in September 2014, NW Natural filed testimony in UM 1633 that explained both the status of

[43] NW Natural/3100, Wilson/14-16.
[44] NW Natural/3100, Wilson/19-20.
[45] NW Natural/3100, Wilson/18-19.
[46] NW Natural/3100, Wilson/20.
[47] *In the Matter of Nw. Natural Gas Co., Application for a General Rate Revision*, Docket No. UG 221, NW Natural's Surrebuttal Testimony and Exhibits, NWN/3100, Feltz/15.

the PBA at that time, and that the PBA was expected to grow through 2021 due to MAP-21 and related legislation.[48]

Q. When was the next time NW Natural alerted the parties about the balance in the PBA?

A. In fall 2017, the Company convened the parties to the PBA Stipulation to apprise them of the situation and to request that the parties consider revising the PBA Stipulation.[49] The parties did not reach any agreement at that meeting, and instead the PBA issue became incorporated into the rate case.

Q. Did the terms of the PBA Stipulation limit parties' ability to propose a comprehensive solution to the PBA in the absence of a new stipulated agreement?

A. Yes. 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.[50] Accordingly, no party individually proposed to increase the FAS 87 pension expense during Phase I of 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, during Phase I of this proceeding, NW Natural, Staff and CUB participated in multiple settlement negotiations, and developed a proposed resolution to the PBA and TCJA issues through the Second Partial Stipulation. In the Second Partial Stipulation, NW Natural, Staff, and CUB agreed to (among other things) increase the amount of FAS 87 expense collected in rates.

[48] NW Natural/3100, Wilson/20.
[49] CUB/601, Gehrke-Jenks/1.
[50] Order No. 11-051 at 4.

Q. Please describe the Commission's treatment of the Second Partial Stipulation with respect to the issues regarding the PBA.

A. The Commission adopted several terms from the Second Partial Stipulation and rejected the remainder. Specifically, the Commission directed NW Natural to "freeze" the PBA balance, and authorized an increase in the amount of FAS 87 expense NW Natural collects in rates on a going-forward basis such that the Company may recover its actual current FAS 87 expense through rates.[51]

Q. Did the Commission also express concerns about the adequacy of the record to support the Second Partial Stipulation?

A. Yes. The Commission indicated that its "primary concern is with insufficient support in the record to conclude that the entirety of the pension balancing account's very significant current balance is subject to recovery from ratepayers without a prudence review or earnings test."[52]

Q. Do the Joint Parties believe that the record is significantly more robust in Phase II of this proceeding?

A. Yes. In Phase II of this proceeding, the Joint Parties have prepared and filed three rounds of testimony, and for its Reply Testimony, NW Natural engaged the services of a consultant—the Company's actuary, Aon—to perform a detailed analysis of the PBA balance. The parties have continued discovery, and participated in multiple settlement conferences.

[51] Order No. 18-419 at 18.
[52] Order No. 18-419 at 18.

Q. Please describe the Stipulating Parties' agreement in the Third Stipulation regarding the PBA.

A. The agreement regarding the PBA has several components:

- NW Natural will reduce the balance in the PBA by:
    - Applying $7.07 million of amounts deferred in the Interim Period Deferral, including interest, as an offset to the balance in the PBA;
    - Applying the $5.44 million of EDIT (Other Non-Plant) as an offset to the balance in the PBA; and
    - Further reducing the PBA balance by $10.5 million.
- NW Natural will reduce the interest rate on the PBA from the Company's authorized rate of return, 7.317 percent, to 4.3 percent.
- The reductions to the PBA balance and interest rate described above (and in paragraphs 10 and 11 of the Third Stipulation) will be made effective as of October 31, 2018.
- Beginning on the rate effective date, NW Natural will amortize the balance of the PBA over a ten-year period by collecting $7.13 million per year ($7.3 million including revenue sensitive effects) from all customers on an equal percentage of margin basis through a separate tariff rider.[53]
- The Stipulating Parties agree that past additions to the PBA were appropriately recorded and should not be subject to an earnings review.
- The Stipulating Parties request that the Commission find that this Third Stipulation supersedes the PBA Stipulation ordered in Docket UM 1475, Order No 11-051.

[53] Exhibit NW Natural-Staff-CUB/401.

Q. Please explain the Stipulating Parties' agreement to reduce the balance of the PBA.

A. As shown in Exhibit NW Natural-Staff-CUB/403, the Stipulating Parties agreed to reduce the balance of the PBA by $23.01 million. This reduction is the result of a combination of applying certain benefits of tax reform as an offset to the PBA balance—$7.07 million of amounts deferred in the Interim Period Deferral, including interest, and $5.44 million of EDIT (Other Non-Plant)—and then by further reducing the PBA balance by $10.5 million.

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

A. In the Second Partial Stipulation in Phase I of this proceeding, NW Natural, Staff, and CUB had agreed to apply the Interim Period Deferral and EDIT (Other Non-Plant) as an offset to the PBA balance.[54] NW Natural, Staff, and CUB continued to support the approach of applying certain benefits of tax reform to the PBA balance in their testimony in Phase II of this proceeding.[55] AWEC, on the other hand, opposed application of the benefits of tax reform to the PBA balance.[56]

Through settlement discussions, the Joint Parties agreed that it is important to pay down the balance in the PBA as quickly as possible to minimize the amount of additional interest accruing on the account and to lessen the rate impact associated with amortizing the remaining balance. Accordingly, the Joint Parties agreed that it would be prudent to reduce the balance of the PBA by applying certain benefits of tax reform to the account.

[54] NW Natural-Staff-CUB/200, Borgerson, Wilson, Gardner, and Jenks/19. This agreement is consistent with the recommendations provided by CUB and the Company in their Phase I testimony. CUB/300, Jenks/5; NW Natural/2500, Borgerson/11-12.
[55] NW Natural/2900, Borgerson/11, 26; Staff/1700, Fox/30; CUB/500, Gehrke-Jenks-3.
[56] AWEC/800, Mullins/11.

Q. Why did the Joint Parties agree to further reduce the balance of the PBA by $10.5 million?

A. In their Phase II testimony, Staff, CUB, and AWEC had each proposed making a reduction to the PBA balance before amortizing any amounts. Staff had proposed reducing the PBA balance by $19.8 million.[57] In its Cross-Answering Testimony, CUB indicated that it agreed with Staff's proposal.[58] In its Phase II testimony, AWEC proposed that no amount of the PBA balance should be amortized, or if the Commission were to require customers to bear a portion of the PBA balance, the amount to be amortized should be reduced by AWEC's proposed adjustments for "reduced contributions to the pension plan, [] de-risking the pension plan, and [] interest expense," totaling [BEGIN CONFIDENTIAL] [redacted] [END CONFIDENTIAL].[59]

In its Reply Testimony, NW Natural responded to the issues raised by Staff and AWEC, and provided further support for the prudence of its management of the PBA balance over the past seven years. Specifically, NW Natural's Reply Testimony and analysis from its actuary, Aon, provided evidence that the failure of the PBA to reverse as expected was primarily a result of the unanticipated declines in the discount rates, EROA, and revised mortality tables, and not because of lower contributions by NW Natural or any other factors within the Company's control.[60] Accordingly, NW Natural proposed that there should be no further reduction to the PBA balance. As part of the compromise of all of the various positions in the parties' testimony, the Stipulating Parties agreed to reduce the PBA balance by $10.5 million.

[57] Staff/1700, Fox/12.
[58] CUB/600, Gehrke-Jenks/12.
[59] AWEC/700, Mullins/32.
[60] NW Natural/3100, Wilson/2.

Q. Why did the Stipulating Parties agree to reduce the interest rate on the PBA from the Company's authorized rate of return, 7.317 percent, to 4.3 percent?

A. In its Phase II testimony, CUB recommended that the interest rate be lowered to the Modified Blended Treasury (MBT) rate.[61] In response to CUB's proposal, Staff recommended that the Commission consider a rate between the Company's authorized ROR and the MBT.[62] NW Natural recommended no change to the interest rate.[63] As a compromise, the Stipulating Parties agreed to reduce the interest rate to 4.3 percent, which is in line with Staff's recommendation.

Q. Why is it reasonable to reduce the interest rate to 4.3 percent?

A. The Joint Parties agree that the reduction to the interest rate balances the need to slow the growth on the PBA balance while also recognizing that NW Natural will continue to incur costs to finance the PBA balance. The reduction to the interest rate represents a reasonable compromise among the Joint Parties.

Q. Please explain why the Joint Parties agreed to make the agreed-upon reductions to the PBA (including the offsets from the benefits of tax reform and the $10.5 million reduction, as well as the reduction to the interest rate) effective as of October 31, 2018.

A. The Joint Parties have all expressed concern with the continued growth in the PBA balance. The agreement to retroactively apply the reductions to the PBA balance and interest rate on the PBA limits the increase in the PBA balance during the pendency of

[61] CUB/500, Gehrke-Jenks/14.
[62] Staff/1800, Fox/12.
[63] NW Natural/3100, Wilson/23.

Phase II. This agreement was part of the overall compromise resulting in the Third Stipulation.

Q. Why did the Joint Parties agree to amortize the balance of the PBA over ten years by collecting $7.13 million per year in rates from customers through a separate tariff rider?

A. As shown in Exhibit NW Natural-Staff-CUB/403, the PBA balance as of October 31, 2018 was $79.9 million. After adjusting the PBA balance to reflect certain benefits of tax reform and a reduction of $10.5 million, effective as of October 31, 2018, the amount left in the account is $56.9 million.[64] Including interest accruing at 4.3 percent (instead of the Company's authorized ROR), the balance to be amortized as of April 1, 2019 is $57.5 million.

The Joint Parties further determined that ten years was a reasonable period to amortize the remaining balance, and would appropriately balance the need to pay down the PBA with reducing the balance over time so to avoid a significant rate impact to customers. Amortizing this balance over ten years at the agreed upon interest rate of 4.3 percent results in an annual amortization of $7.13 million.[65]

Q. Please explain why the Joint Parties agreed that past additions to the PBA were appropriately recorded and should not be subject to an earnings review.

A. In Staff's Phase II testimony, Staff indicated that an earnings review should not apply to the PBA balance based on the nature of FAS 87 expense, which the Commission had characterized as a necessary and prudent expense, and the circumstances and complex

[64] Exhibit NW Natural-Staff-CUB/402.
[65] Exhibit NW Natural-Staff-CUB/402.

history giving rise to the balancing account.[66] CUB also opposed application of an earnings review for the PBA, noting that the original PBA Stipulation did not apply an earnings test prior to recovery of amounts in the PBA.[67] CUB also explained that, as part of the Second Partial Stipulation, NW Natural agreed to waive the earnings test on the tax deferral, and observed that "a parallel application of an earnings test to the tax deferral would offset the benefits of an earnings test on the PBA."[68] AWEC, on the other hand, urged that an earnings review should be required prior to amortization of the PBA balance as part of the legal requirements for deferred accounting.[69] NW Natural responded to AWEC's argument that an earnings review is required, noting that the PBA was ordered under the Commission's general jurisdiction—not pursuant to ORS 757.259—and accordingly, the ORS requirements for earnings reviews are not required or relevant to the Commission's inquiry in this case.[70] As a part of the overall compromise leading to the Third Stipulation, the Joint Parties agreed that an earnings review should not apply.

Q. Did the Joint Parties also agree that the PBA balance should not be subject to a prudence review?

A. While not explicitly a part of the Third Stipulation, by agreeing to amortize the remaining balance of the PBA, the Joint Parties have agreed that the PBA should not be subject to any further prudence review. The Joint Parties agree that the compromises provided for in the Third Stipulation appropriately balance the Joint Parties' respective views regarding the prudence of the Company's management of the PBA.

[66] Staff/1700, Fox/14-15.
[67] CUB/500, Gehrke-Jenks/13.
[68] CUB/500, Gehrke-Jenks/12-13.
[69] AWEC/700, Mullins/13.
[70] NW Natural/3100, Wilson/41,

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

A. The Joint Parties recognize that the treatment of the PBA is currently governed by Order No. 11-051 (as modified by the Commission's Order No. 18-419), and the agreement in the Third Stipulation provides for different treatment of the PBA. For this reason, the Joint Parties request that the Commission expressly find that the Third Stipulation (in combination with the Commission's Order No. 18-419) supersedes the PBA Stipulation in Order No. 11-051.

V. RATE IMPACT OF THIRD STIPULATION

Q. What is the overall rate impact of the agreements in the Third Stipulation?

A. The overall rate impact of the Third Stipulation results in an increase to revenue of $2.4 million, or 0.64 percent.[71]

Q. What are the customer bill impacts associated with the Third Stipulation?

A. The customer bill impacts are described in detail by customer class in Exhibit B to the Third Stipulation. Residential customers will see an increase of about $0.28 in their average monthly bill, or 0.55 percent.

VI. REASONABLENESS OF THE THIRD STIPULATION

Q. What is the basis for the Third Stipulation?

A. The Third Stipulation is a compromise based on the record in this case, which includes the record in Phase I of this proceeding, as well as three rounds of testimony by NW Natural and the parties in Phase II. To support its Reply Testimony, NW Natural engaged its actuary, Aon, to provide detailed analysis regarding the factors contributing to the

[71] Exhibit NW Natural-Staff-CUB/401.

increased PBA balance. During Phase I, NW Natural responded to over 400 data requests from Staff, CUB, and AWEC, and then responded to an additional 38 data requests during Phase II. The Company also provided updates to the responses to data requests as necessary and appropriate. Over the course of the settlement discussions, which were lengthy and detailed, the Joint Parties resolved their differences regarding the issues addressed in the Third Stipulation through dialogue, negotiations, and compromise to reach a fair result.

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

A. The Joint Parties recommend and request that the Commission approve the Third Stipulation in its entirety.

Q. Please explain why the Joint Parties believe that the Commission should adopt the Third Stipulation?

A. The Joint Parties have carefully reviewed NW Natural's Opening Testimony and Reply Testimony in Phase II, as well as NW Natural's responses to data requests. NW Natural has carefully reviewed the other parties' Rebuttal Testimony and Cross-Answering Testimony. The Joint Parties have thoroughly analyzed the issues addressed in the Third Stipulation during multiple days of settlement conferences, and have worked together to create substantive exhibits supporting all relevant calculations. The Joint Parties believe that the agreements in the Third Stipulation provide a fair and reasonable resolution of the remaining impacts of the TCJA and the PBA, and the resulting rates are fair, just and reasonable.

Q. Please elaborate.

A. The Third Stipulation represents a reasonable compromise for many reasons, including the following: (1) the Third Stipulation results in an overall average rate increase of approximately 0.64 percent; (2) the Third Stipulation represents a fair settlement of the remaining impacts of the TCJA and the PBA including shareholders absorbing $10.5 million of the accumulated PBA balance; (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 the settlement agreement giving rise to the PBA in Docket No. UM 1475; and (5) the settlement of the issues presented in the Third Stipulation eliminates the need for additional litigation of these issues in this proceeding among the Stipulating Parties.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UG 344 – Phase II

NW Natural-Staff-CUB

Joint Testimony in Support of Third Stipulation

INCREMENTAL REVENUE RECONCILIATION

Exhibit 401

February 14, 2019

NW Natural
UG 344
Adjustments to Incremental Revenue
($000)

1	**Incremental Rev. Req.**		NW Natural/1202/1 at 1, col f.			**$ 37,816**
2		**Description**	**Revenue**	**Expense**	**Rate Base**	**Revenue Requirement Effect**
3	Order 18-419	See Order for detail of adjustments				(14,388)
4		Subtotal Incremental Revenue Requirement				**$ 23,427**
5						
6	Phase II Stipulation - Base Rate adjustments					
7		Unprotected EDIT (Non-ARAM)			$ 3,998	
8		Protected EDIT (ARAM)			5,997	
9		Unprotected EDIT (Non-ARAM Gas Reserves)			5,383	
10		Subtotal Incremental Revenue Requirement			$ 15,379	**$ 1,433**
11	**Total Incremental Revenue Requirements Change to Base Rates**					**$ 24,860**
12	Phase II Stipulation - Separate Tariffs					
13		Stipulation 3 Tariff - tax refund of Protected EDIT to customers				$ (3,357)
14		Stipulation 3 Tariff - tax refund of Unprotected EDIT to Gas Reserve customers over 5 years				(3,013)
15		Stipulation 3 Tariff - Amort. of PBA over 10 years				7,338
16	**Total Proposed Revenue Change**					**$ 25,828**
17	**Overall Rate Impact of Phase II Stipulation** (line 16 less Line 4)					**$ 2,401**

Line 11 (Corresponds with Revenue Requirement Model Summary, col. 8, line 2.)

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UG 344 – Phase II

NW Natural-Staff-CUB

Joint Testimony in Support of Third Stipulation

STAFF'S MODEL SETTLEMENT

Exhibit 402

February 14, 2019

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

	SUMMARY SHEET	2017 Results Per Company Filing at Present Rates (1)	(2)	2019 Results Per Company Filing (3)	Company Filed Required Change for Reasonable Return (4)	Company Filed 2019 Results at Reasonable Return (5)	Adjustments to Company 2019 Results (6)	Adjusted 2019 Company Results (3) + (6) (7)	Required Change for Reasonable Return (8)	Results at Reasonable Return (7) + (8) (9)
1	**Operating Revenues**									
2	General Business	637,346	(27,330)	610,016	37,816	647,831	-	610,016	24,860	634,876
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	70	630,159	24,860	655,019
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	0	1,890	75	1,965
16	Franchise Fees	15,483	(550)	14,933	896	15,829	2	14,935	589	15,524
17	Uncollectibles	716	(7)	710	43	753	0	710	28	738
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	(2,818)	440,018	692	440,710
22	Depreciation & Amortization	71,362	5,009	76,371	-	76,371	(1,963)	74,408	-	74,408
23	Taxes Other than Income	26,214	2,337	28,551	-	28,551	(353)	28,198	-	28,198
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	1,806	17,241	6,526	23,768
26	Total Operating Expenses	578,935	(14,544)	564,392	10,980	575,372	(4,527)	559,865	7,218	567,084
27	Net Operating Revenues	74,342	(8,645)	65,697	26,836	92,532	4,597	70,294	17,642	87,935
28	**Average Rate Base**									
29	Utility Plant in Service	2,576,151	13,674	2,831,198	-	2,831,198	(62,025)	2,769,173	-	2,769,173
30	Less: Accumulated Depreciation & Amortization	(1,143,047)	(6,365)	(1,244,909)	-	(1,244,909)	32,786	(1,212,123)	-	(1,212,123)
31	Accumulated Deferred Income Taxes	(396,737)	(70)	(409,841)	-	(409,841)	16,427	(393,414)	-	(393,414)
32	Accumulated Deferred Inv. Tax Credit		-	-	-	-	-	-	-	-
33	Net Utility Plant	1,036,366	7,238	1,176,449	-	1,176,449	(12,813)	1,163,636	-	1,163,636
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	(13,104)	1,201,792	-	1,201,792
45	**Rate of Return**	6.803%		5.408%		7.616%		5.849%		7.317%
46	**Implied Return on Equity**	5.582%		5.582%		10.000%		6.464%		9.400%

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UG 344 – Phase II

NW Natural-Staff-CUB

Joint Testimony in Support of Third Stipulation

PENSION BALANCING ACCOUNT AMORTIZATION

Exhibit 403

February 14, 2019

Interest Rate	4.300%

October 31, 2018 PBA Balance	$ 79,861,289

PMT Calculation	
($594,254.91)	

			Ending Balance	**Interest**	**Equal Payment**
	1	2018 October	$ 56,850,237		
1	2	2018 November	$ 57,053,950	$ 203,713	
2	3	2018 December	$ 57,258,394	$ 204,443	
3	4	2019 January	$ 57,463,570	$ 205,176	
4	5	2019 February	$ 57,669,481	$ 205,911	
	6	2019 March	$ 57,876,130	$ 206,649	
	7	2019 April	$ 57,489,264	$ 207,389	$ 594,255
	8	2019 May	$ 57,101,013	$ 206,003	$ 594,255
	9	2019 June	$ 56,711,370	$ 204,612	$ 594,255
	10	2019 July	$ 56,320,330	$ 203,216	$ 594,255
	11	2019 August	$ 55,927,890	$ 201,815	$ 594,255
	12	2019 September	$ 55,534,043	$ 200,408	$ 594,255
	13	2019 October	$ 55,138,785	$ 198,997	$ 594,255
	14	2019 November	$ 54,742,111	$ 197,581	$ 594,255
	15	2019 December	$ 54,344,015	$ 196,159	$ 594,255
	16	2020 January	$ 53,944,493	$ 194,733	$ 594,255
	17	2020 February	$ 53,543,539	$ 193,301	$ 594,255
	18	2020 March	$ 53,141,149	$ 191,864	$ 594,255
	19	2020 April	$ 52,737,316	$ 190,422	$ 594,255
	20	2020 May	$ 52,332,037	$ 188,975	$ 594,255
	21	2020 June	$ 51,925,305	$ 187,523	$ 594,255
	22	2020 July	$ 51,517,116	$ 186,066	$ 594,255
	23	2020 August	$ 51,107,464	$ 184,603	$ 594,255
	24	2020 September	$ 50,696,344	$ 183,135	$ 594,255
	25	2020 October	$ 50,283,751	$ 181,662	$ 594,255
	26	2020 November	$ 49,869,680	$ 180,183	$ 594,255
	27	2020 December	$ 49,454,124	$ 178,700	$ 594,255
	28	2021 January	$ 49,037,080	$ 177,211	$ 594,255
	29	2021 February	$ 48,618,541	$ 175,716	$ 594,255
	30	2021 March	$ 48,198,503	$ 174,216	$ 594,255
	31	2021 April	$ 47,776,959	$ 172,711	$ 594,255
	32	2021 May	$ 47,353,905	$ 171,201	$ 594,255
	33	2021 June	$ 46,929,335	$ 169,685	$ 594,255

$ 7,131,059 annual payment

PBA Reduction	
Interim Period	$ 7,073,708
Unprotected EDIT	$ 6,972,400
Disallowance	$ 10,500,000
Unprotected EDIT Adj.	$ (1,535,056)
TOTAL	$ 23,011,052

34	2021	July	$	46,503,244	$	168,163	$	594,255
35	2021	August	$	46,075,625	$	166,637	$	594,255
36	2021	September	$	45,646,475	$	165,104	$	594,255
37	2021	October	$	45,215,786	$	163,567	$	594,255
38	2021	November	$	44,783,555	$	162,023	$	594,255
39	2021	December	$	44,349,774	$	160,474	$	594,255
40	2022	January	$	43,914,439	$	158,920	$	594,255
41	2022	February	$	43,477,544	$	157,360	$	594,255
42	2022	March	$	43,039,084	$	155,795	$	594,255
43	2022	April	$	42,599,053	$	154,223	$	594,255
44	2022	May	$	42,157,444	$	152,647	$	594,255
45	2022	June	$	41,714,253	$	151,064	$	594,255
46	2022	July	$	41,269,475	$	149,476	$	594,255
47	2022	August	$	40,823,102	$	147,882	$	594,255
48	2022	September	$	40,375,130	$	146,283	$	594,255
49	2022	October	$	39,925,553	$	144,678	$	594,255
50	2022	November	$	39,474,364	$	143,067	$	594,255
51	2022	December	$	39,021,559	$	141,450	$	594,255
52	2023	January	$	38,567,131	$	139,827	$	594,255
53	2023	February	$	38,111,075	$	138,199	$	594,255
54	2023	March	$	37,653,385	$	136,565	$	594,255
55	2023	April	$	37,194,055	$	134,925	$	594,255
56	2023	May	$	36,733,079	$	133,279	$	594,255
57	2023	June	$	36,270,451	$	131,627	$	594,255
58	2023	July	$	35,806,165	$	129,969	$	594,255
59	2023	August	$	35,340,215	$	128,305	$	594,255
60	2023	September	$	34,872,596	$	126,636	$	594,255
61	2023	October	$	34,403,301	$	124,960	$	594,255
62	2023	November	$	33,932,325	$	123,278	$	594,255
63	2023	December	$	33,459,661	$	121,591	$	594,255
64	2024	January	$	32,985,303	$	119,897	$	594,255
65	2024	February	$	32,509,246	$	118,197	$	594,255
66	2024	March	$	32,031,482	$	116,491	$	594,255
67	2024	April	$	31,552,007	$	114,779	$	594,255
68	2024	May	$	31,070,813	$	113,061	$	594,255
69	2024	June	$	30,587,895	$	111,337	$	594,255
70	2024	July	$	30,103,247	$	109,607	$	594,255
71	2024	August	$	29,616,862	$	107,870	$	594,255
72	2024	September	$	29,128,734	$	106,127	$	594,255

73	2024	October	$	28,638,857	$	104,378	$	594,255
74	2024	November	$	28,147,225	$	102,623	$	594,255
75	2024	December	$	27,653,831	$	100,861	$	594,255
76	2025	January	$	27,158,669	$	99,093	$	594,255
77	2025	February	$	26,661,732	$	97,319	$	594,255
78	2025	March	$	26,163,015	$	95,538	$	594,255
79	2025	April	$	25,662,511	$	93,751	$	594,255
80	2025	May	$	25,160,214	$	91,957	$	594,255
81	2025	June	$	24,656,116	$	90,157	$	594,255
82	2025	July	$	24,150,212	$	88,351	$	594,255
83	2025	August	$	23,642,496	$	86,538	$	594,255
84	2025	September	$	23,132,960	$	84,719	$	594,255
85	2025	October	$	22,621,598	$	82,893	$	594,255
86	2025	November	$	22,108,404	$	81,061	$	594,255
87	2025	December	$	21,593,371	$	79,222	$	594,255
88	2026	January	$	21,076,492	$	77,376	$	594,255
89	2026	February	$	20,557,761	$	75,524	$	594,255
90	2026	March	$	20,037,172	$	73,665	$	594,255
91	2026	April	$	19,514,717	$	71,800	$	594,255
92	2026	May	$	18,990,389	$	69,928	$	594,255
93	2026	June	$	18,464,183	$	68,049	$	594,255
94	2026	July	$	17,936,092	$	66,163	$	594,255
95	2026	August	$	17,406,108	$	64,271	$	594,255
96	2026	September	$	16,874,225	$	62,372	$	594,255
97	2026	October	$	16,340,436	$	60,466	$	594,255
98	2026	November	$	15,804,734	$	58,553	$	594,255
99	2026	December	$	15,267,113	$	56,634	$	594,255
100	2027	January	$	14,727,565	$	54,707	$	594,255
101	2027	February	$	14,186,084	$	52,774	$	594,255
102	2027	March	$	13,642,663	$	50,833	$	594,255
103	2027	April	$	13,097,294	$	48,886	$	594,255
104	2027	May	$	12,549,971	$	46,932	$	594,255
105	2027	June	$	12,000,687	$	44,971	$	594,255
106	2027	July	$	11,449,434	$	43,002	$	594,255
107	2027	August	$	10,896,206	$	41,027	$	594,255
108	2027	September	$	10,340,996	$	39,045	$	594,255
109	2027	October	$	9,783,797	$	37,055	$	594,255
110	2027	November	$	9,224,600	$	35,059	$	594,255
111	2027	December	$	8,663,400	$	33,055	$	594,255

112	2028 January	$	8,100,189	$	31,044	$	594,255
113	2028 February	$	7,534,960	$	29,026	$	594,255
114	2028 March	$	6,967,705	$	27,000	$	594,255
115	2028 April	$	6,398,418	$	24,968	$	594,255
116	2028 May	$	5,827,091	$	22,928	$	594,255
117	2028 June	$	5,253,716	$	20,880	$	594,255
118	2028 July	$	4,678,287	$	18,826	$	594,255
119	2028 August	$	4,100,796	$	16,764	$	594,255
120	2028 September	$	3,521,236	$	14,695	$	594,255
121	2028 October	$	2,939,599	$	12,618	$	594,255
122	2028 November	$	2,355,877	$	10,534	$	594,255
123	2028 December	$	1,770,064	$	8,442	$	594,255
124	2029 January	$	1,182,152	$	6,343	$	594,255
125	2029 February	$	592,133	$	4,236	$	594,255
	2029 March	$	(0)	$	2,122	$	594,255

CERTIFICATE OF SERVICE

I hereby certify that on February 14, 2019 I have served via Huddle the foregoing Confidential Phase II Joint Testimony in Support of the Third Stipulation and by electronic mail the redacted version upon all parties of record in docket UG 344.

UG 344

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DATED: February 14, 2019

Alisha Till

Alisha Till
Paralegal