



McDOWELL RACKNER GIBSON PC
419 SW 11th Ave, Suite 400 | Portland, OR 97205

ALISHA TILL
Direct (503) 290-3628
alisha@mrg-law.com

October 5, 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 Reply Testimony in Response to AWEC's Objections to the Second Stipulation.

Please contact this office with any questions.

Sincerely,

A handwritten signature in blue ink that reads "Alisha Till".

Alisha Till
Legal Assistant

Attachment

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 344

Joint Reply Testimony of NW Natural Gas Company d/b/a NW Natural, Public Utility
Commission of Oregon Staff, and the Citizens' Utility Board of Oregon
in response to
the Alliance of Western Energy's Consumer's Objections to Second Partial Stipulation

NW NATURAL-STAFF-CUB EXHIBIT 300

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

October 5, 2018

TABLE OF CONTENTS

I.	INTRODUCTION AND SUMMARY	1
II.	BACKGROUND	1
III.	AWEC’S OBJECTIONS TO THE SECOND STIPULATION	3
IV.	PENSION BALANCING ACCOUNT (PBA)	6
	PBA Background and Context	6
	AWEC’s Procedural Concerns about the PBA Agreements	9
	Responsibility for PBA Account Balances	12
	Prudence of Amounts in PBA	13
	Application of Tax Benefits to Reduce the Balance of the PBA	15
	Amortization of PBA Account Balance	17
V.	IMPACTS OF TAX REFORM	19
	Background Regarding Impacts of Tax Reform in this Case	19
	AWEC’s Procedural Concerns Regarding Tax Issues in the Second Stipulation	24
	Calculation and Treatment of the Interim Period Amount	25
	Use of ARAM for Plant-Related EDIT	28
	Earnings Review for Tax Benefits	34
VI.	REASONABLENESS OF THE SECOND STIPULATION	35

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Who is sponsoring this testimony?**

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

6 **Q. Are you the same Stipulating Parties that provided joint testimony in support of
7 the second partial stipulation filed in Docket No. UG 344 (Second Stipulation)?**

8 A. Yes.

9 **Q. What is the purpose of this joint reply testimony?**

10 A. The Alliance of Western Energy Consumers (AWEC) did not join the Second Stipulation.
11 On October 1, 2018, AWEC filed testimony and a brief objecting to certain elements of the
12 Second Stipulation. This joint reply testimony responds to AWEC's objections to the
13 Second Stipulation, and further supports the reasonableness of the Second Stipulation.

14 **II. BACKGROUND**

15 **Q. Please describe the stipulations that have been filed in this case.**

16 A. Two stipulations have been filed in this case. The first stipulation was an all-party partial
17 stipulation resolving all but three issues in this case, which was filed on August 6, 2018
18 (First Stipulation).¹ The Second Stipulation was a three-party partial stipulation among
19 NW Natural, Staff, and CUB, and was filed on September 7, 2018.

20 **Q. What issues are addressed in the Second Stipulation?**

¹ 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;

1 A. The Second Stipulation addresses three issues: (1) the treatment of the Company's
2 pension balancing account (PBA) and recovery of FAS 87 expense; (2) the impact of the
3 2017 federal Tax Cuts and Jobs Act (TCJA) on the Company's accumulated deferred
4 income tax (ADIT) and the proposed treatment of the resulting excess deferred income
5 taxes (EDIT); and (3) the calculation and treatment of the Company's tax expense
6 recovered in rates during the time period leading up to the rate effective date, January 1,
7 2018 through October 31, 2018 (Interim Period).

8 **Q. Please summarize the key elements of the Second Stipulation.**

9 A. The Stipulating Parties agree that NW Natural will "freeze" the PBA as of October 31,
10 2018, and that NW Natural will reduce the balance in the PBA by certain benefits of tax
11 reform as an offset to the PBA—specifically \$5.9 million of amounts deferred in the Interim
12 Period, plus interest, and \$6.7 million of EDIT (Other Non-Plant). The Stipulating Parties
13 agreed that NW Natural will amortize the remaining balance of the PBA over a ten-year
14 period by collecting \$8.2 million per year from all customers through a separate tariff rider.
15 As of the November 1, 2018 rate effective date for this general rate case, NW Natural will
16 recover its test year FAS 87 pension expense in base rates, resulting in an increase of
17 \$8.1 million to NW Natural's revenue requirement.

18 Regarding the impacts of tax reform, the Stipulating Parties agree that NW Natural
19 properly recorded the remeasurement of regulated utility EDIT as a result of the TCJA.
20 The Stipulating Parties agree that NW Natural will return to customers EDIT (Plant),
21 subject to the average rate assumption method (ARAM), in the amount of \$3.26 million

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.

1 per year in base rates beginning on the rate effective date and NW Natural will return to
2 sales customers \$14.64 million of EDIT (Non-Plant Gas Reserves), inclusive of a gross
3 up for income taxes, over five years through a separate tariff rider. As described above,
4 the Interim Period amount of \$5.9 million and EDIT (Other Non-Plant) of \$6.7 million will
5 be reflected as a one-time reduction to the PBA.

6 **III. AWEC'S OBJECTIONS TO THE SECOND STIPULATION**

7 **Q. What are AWEC's objections to the Second Stipulation?**

8 A. AWEC presents both procedural and substantive objections to the Second Stipulation.
9 AWEC's procedural concerns are that the Second Stipulation was filed relatively late in
10 this proceeding, and AWEC claims that it has not had adequate time to consider and
11 perform discovery on certain elements of the Second Stipulation.² Additionally, AWEC
12 has a number of substantive objections to the Second Stipulation. These objections will
13 be discussed in greater detail below, but at a high level, AWEC describes its objections
14 as follows:

15 (1) AWEC objects to "commingling" the tax and PBA issues, and recommends
16 instead that each issue should be considered separately;

17 (2) AWEC objects to amortization of the PBA balances, and recommends that the
18 Commission instead open a new docket to determine whether customers should
19 be responsible for paying the PBA balances;

20 (3) AWEC objects to the Stipulating Parties' calculation of the Interim Period
21 deferred amount and application of that amount to reduce the PBA balance, and
22 recommends instead that NW Natural begin refunding an estimate of the Interim

² AWEC/600, Mullins/1.

1 Period amount to customers over a two-year period, subject to a true-up in the
2 second year based on further proceedings in Docket Nos. UM 1919 and 1924; and
3 (4) AWEC objects to the use of the Average Rate Assumption Methodology
4 (ARAM) for determining the amortization schedule for the return of plant-related
5 EDIT, but agrees that the amount proposed to be amortized, \$3.26 million, is
6 reasonable. AWEC recommends that the Commission accept the proposed
7 amortization of EDIT as provided in the Second Stipulation, but decline to adopt
8 ARAM as the appropriate methodology in this case so that parties are not
9 foreclosed from raising this issue in the future.³

10 **Q. Do AWEC's procedural concerns have any merit?**

11 A. No. While it is true that the Second Stipulation was filed relatively late in this proceeding,
12 the Stipulating Parties *and* AWEC have been discussing the basic approach agreed-upon
13 in the Second Stipulation throughout the course of this proceeding, and even before this
14 proceeding commenced. As described in the Opening Testimony of Kevin McVay, NW
15 Natural approached the parties prior to filing the general rate case to inform them that the
16 balance in the PBA was higher than originally forecast and that NW Natural was interested
17 in developing a solution to this issue with the parties.⁴ As early as the second settlement
18 conference on May 30, 2018, the parties were discussing the calculations that would
19 underlie the Second Stipulation as well as a proposal to use tax benefits to offset the PBA
20 balance. These topics and calculations have been susceptible to discovery during the
21 entire course of this proceeding. AWEC's claim that it has not had adequate time to
22 evaluate whether the Second Stipulation is in the public interest is without merit.

³ AWEC/600, Mullins/2-4.

⁴ NW Natural/200, McVay/20-21.

1 **Q. Do AWEC's substantive concerns have any merit?**

2 A. No. AWEC's first concern—that it is inappropriate to consider application of the benefits
3 from the TCJA to reducing the balance of the PBA—is entirely unfounded, and has no
4 support as a matter of law or policy. AWEC has not cited any relevant precedent to
5 support its claim, and in fact, the Commission recently approved a stipulation achieving a
6 similar result for Idaho Power Company's customers.⁵ There simply is no barrier to the
7 application of the benefits of tax reform to reduce the PBA balance.

8 Regarding AWEC's second concern, AWEC's proposal that the Commission open
9 a new docket to investigate amortization of the PBA balance, the Stipulating Parties
10 believe that no such proceeding is necessary. The Stipulating Parties agree that the PBA
11 balance is recoverable through rates, and urge that any further delay in addressing this
12 issue may harm customers by allowing the PBA balance (and related financing costs) to
13 continue to grow.

14 AWEC's third concern, regarding the calculation and treatment of the Interim
15 Period amount, is without merit. As discussed in greater detail later in Section V of this
16 joint reply testimony, AWEC's calculation of the Interim Period amount is unsound and
17 must be rejected. On the other hand, NW Natural and the Stipulating Parties have
18 provided robust and detailed information regarding the Company's calculation, which
19 should be adopted by the Commission. Regarding the treatment of the Interim Period
20 amount, the Stipulating Parties believe that customers will ultimately receive a greater

⁵ *In the Matter of Idaho Power Co., Requests Approval of Changes to Rates Related to the Accelerated Depreciation of Valmy and Approval to Defer and Amortize the 2018 Ratepayer Benefits Associated with the Income Tax Provisions of the U.S. Tax Cuts and Jobs Act*, Docket Nos. UM 1928 and UE 345, Order No. 18-199 (May 30, 2018) (applying certain benefits of tax reform to reduce the customer impact of accelerating depreciation for Idaho Power's Valmy Unit 1).

1 benefit in connection with the proposed treatment of the Interim Period amount in the
2 Second Stipulation than customers would otherwise receive through a rate credit as
3 proposed by AWEC.⁶

4 AWEC's fourth concern, regarding the use of ARAM, is completely unfounded.
5 ARAM is the appropriate method for determining the proposed amortization schedule for
6 plant-related EDIT, and if adequate data is available to use ARAM, ARAM *must* be used.
7 The Stipulating Parties believe that AWEC's request that the Commission decline to
8 acknowledge ARAM as the appropriate methodology is without any basis and should be
9 rejected. Despite AWEC's opposition to the use of ARAM, AWEC generally agrees that
10 the amount of plant-related EDIT that was calculated using ARAM—\$3.26 million—is
11 reasonable. AWEC supports returning this amount to customers as proposed in the
12 Second Stipulation.

13 **IV. PENSION BALANCING ACCOUNT (PBA)**

14 ***PBA Background and Context***

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

16 A. In 2010, NW Natural initiated Docket No. UM 1475 to address under-recovery of its FAS
17 87 pension expense. At that time, the Company was collecting \$3.8 million of FAS 87
18 pension expenses in rates annually, but the Company's actual pension expenses
19 exceeded the amounts recovered in rates, and were forecasted to continue to do so for
20 the next several years.⁷ To address the Company's under-recovery, NW Natural, Staff,

⁶ This enhanced benefit is due in part to the Company's agreement to forgo earnings review for the tax benefits in 2017.

⁷ *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).

1 CUB, and AWEC's predecessor, the Northwest Industrial Gas Users, entered into a
2 stipulation establishing the PBA (PBA Stipulation).⁸

3 The PBA was established to book the difference between the \$3.8 million collected
4 in rates, and the Company's actual pension expense. The parties expected that, for a
5 period of years, the balance in the account would increase, as the Company continued to
6 under-recover its FAS 87 expense.⁹ However, based on the information available at the
7 time, the parties expected that in future years, the Company's actual FAS 87 pension
8 expense would begin to decrease to less than \$3.8 million, which would decrease the PBA
9 balance over time.¹⁰ Eventually, the balance would become negative, after which the PBA
10 would be terminated.¹¹ This approach was intended to avoid an increase to the FAS 87
11 amounts collected in customer rates, while addressing the Company's concerns regarding
12 under-recovery. The Company still includes \$3.8 million of FAS 87 pension expense in
13 rates each year, which is subject to the PBA that records the difference between the \$3.8
14 million in rates and the Company's actual pension expense.¹²

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

17 A. No. Based on the information available at the time in Docket No. UM 1475, the parties
18 expected that NW Natural would continue to under-collect pension expenses and the
19 balance in the account would continue to grow, but after several years the pattern would

⁸ *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).

⁹ Order No. 11-051 at 3.

¹⁰ NW Natural/200, McVay/20.

¹¹ Order No. 11-051 at 4.

¹² NW Natural/200, McVay/19-20.

1 reverse itself—and eventually net to zero in about 12 to 13 years.¹³ Those predictions
2 have not been realized, however, in part due to lower interest rates than had been
3 assumed at the time the pension balancing account was created, as well as changing
4 pension funding requirements.¹⁴ As a result, actual FAS 87 expense has not decreased
5 as expected, and the balance in the account has grown to a level much higher than
6 anticipated.

7 This is why Staff, CUB and the Company are proposing a solution. AWEC's
8 position that the PBA is broken, but that we can put off fixing it and open a new docket to
9 investigate the PBA balance, just means that the problem will continue to grow. While a
10 new docket is opened to examine the PBA, the balance of the PBA will have an additional
11 year of FAS 87 in excess of the amount currently in rates added to it, and it will continue
12 to accrue interest. The annual interest alone is greater than the amount of FAS 87
13 expense in rates, so even if somehow FAS 87 expense were reduced to zero, the
14 balancing account would continue to grow. If we put off fixing this issue, and instead
15 request a new docket, the problem will continue to grow.

¹³ Order No. 11-051 at 3.

¹⁴ NW Natural/2600, Wilson/2.

1 In NW Natural's last rate case, three issues were unresolved and, as a result, new
2 dockets were opened to resolve each issue.¹⁵ As shown in the table below, each docket
3 took several years to resolve.

Docket	Subject	Date opened	Date of Final Order
UM 1633	Pension recovery	11-15-2012	8-3-15
UM 1635	Environmental Remediation	11-16-12	1-26-16
UM 1654	Mist Optimization	5-13-13	Unresolved, issue in this case

4 Both customers and the Company will benefit from a fair resolution that pays down
5 the balance, reduces the amount of interest paid by customers, and allows the Company
6 to recover the amounts spent on behalf of customers, and both will be harmed by
7 needlessly delaying a resolution and letting the problem that needs to be addressed to
8 continue growing.

9 ***AWEC's Procedural Concerns about the PBA Agreements***

10 **Q. AWEC claims that the Stipulating Parties' agreements regarding the PBA amount**
11 **to an 11th-hour proposal, which it has had insufficient time to vet. Does AWEC's**
12 **position have any merit?**

13 A. No. It is true that NW Natural did not originally make a comprehensive proposal for
14 treatment of the PBA in its testimony in this case—for the reasons clearly explained in its
15 testimony.¹⁶ That is, the PBA was the result of an all-party stipulation, and NW Natural
16 believed that any proposal to alter that stipulation should, if at all possible be the result of
17 a consensus. Additionally, the PBA Stipulation specifically prohibits the Company from

¹⁵ *In the Matter of Nw. Natural Gas Co. dba NW Natural Request for a Gen. Rate Revision*, Docket No. UG 221, Order No. 12-408 (Oct. 26, 2012) and Order No. 12-437 (Nov. 16, 2012).

¹⁶ NW Natural/2600, Wilson/3; see also NW Natural-Staff-CUB/200, Borgerson, Wilson, Gardner, and Jenks/18.

1 proposing an increase to FAS 87 expense. For these reasons, when NW Natural raised
2 the issue in its testimony, the Company explained that it hoped to work with the parties on
3 a mutually-agreeable resolution, and noted that a solution should be introduced as part of
4 this case.

5 However, over the course of this rate case, AWEC and CUB argued that the
6 Commission should address the PBA in this docket—with AWEC arguing that the account
7 should be terminated. At that point, the fate of the PBA—including the amounts contained
8 in the PBA—was raised as a litigated issue and AWEC was entirely free to engage in
9 discovery and otherwise fully investigate all relevant issues. Moreover, the parties
10 discussed a potential stipulated resolution regarding the PBA at several settlement
11 conferences—giving AWEC further notice of the resolution ultimately agreed-upon by the
12 Stipulating Parties. AWEC’s claim that it has had insufficient time to address the issue is
13 not supported by the facts.

14 **Q. AWEC claims that the concept of applying tax benefits to the PBA was not**
15 **developed in the evidentiary record. Is this claim correct?**

16 A. No. Both CUB and NW Natural raised the possibility of applying the benefits of tax reform
17 to the PBA in testimony. CUB made its recommendation formally in the record in this case
18 on June 20, 2018, and NW Natural signaled openness to the idea on July 9, 2018.¹⁷ Thus,
19 contrary to AWEC’s assertions, these are not “new” or “radical” ideas.

20 **Q. And was AWEC aware of the concepts—and specific amounts—that were ultimately**
21 **included in the Second Stipulation even before it was memorialized in writing and**
22 **filed with the Commission?**

¹⁷ CUB/300, Jenks/5; NW Natural/2500, Borgerson/11-12.

1 A. Yes. AWEC participated in multiple settlement conferences addressing these issues on
2 May 30, 2018, June 12, 2018, and July 19, 2018. Although AWEC elected not to
3 participate in the last settlement conference which resulted in the agreements contained
4 in the Second Stipulation, shortly after that agreement was reached—and before the
5 agreement was memorialized in a stipulation—the Stipulating Parties shared a summary
6 of the content of the Second Stipulation with AWEC. Thus, AWEC was fully aware of the
7 terms of the Second Stipulation as of August 28, 2018.

8 **Q. Could you please describe the timing of AWEC’s discovery efforts in this case?**

9 A. Yes. AWEC issued five sets of data requests (DRs) to NW Natural between March 7,
10 2018 and April 3, 2018. AWEC issued a sixth set of DRs to NW Natural on September
11 13, 2018, as well a first set of DRs to Staff on September 13, 2018. Notably, there were
12 over *five* months during which these issues were being discussed and AWEC performed
13 no discovery at all. To the extent that AWEC desired to perform additional discovery on
14 PBA-related issues in this case, AWEC had ample opportunity and it is not clear why
15 AWEC waited until September 13, 2018 to do so.

16 **Q. AWEC also claims that it requested that Staff provide an earnings test for the PBA**
17 **account amortization, and asserts that Staff did not provide the information AWEC**
18 **sought, and then AWEC was unable to issue a follow up request for clarification**
19 **due to timing constraints. Could you please comment on AWEC’s timing concerns?**

20 A. Staff provided its response to AWEC’s DR on September 17, 2018—ten days before the
21 deadline for responding to the DR, and 14 days before AWEC’s response to the Second
22 Stipulation was due. If AWEC desired further information or clarification, there was ample
23 time to follow up with Staff regarding this issue.

1 ***Responsibility for PBA Account Balances***

2 **Q. AWEC asserts that the Second Stipulation wrongfully claims that the amounts in**
3 **the balancing account are the customers' responsibility. Do you agree with**
4 **AWEC's position?**

5 A. No, AWEC is incorrect. The PBA was established with the expectation that customers
6 would underpay FAS 87 expense in the early years and would overpay FAS 87 expense
7 in the latter years, but underlying it was the expectation that FAS 87 expense was a
8 responsibility of customers. Amounts that accrued to the PBA represent under-recoveries
9 of FAS expense during the effective period of the PBA. The PBA Stipulation assumed
10 that all positive amounts booked to the PBA would be recovered by operation of the
11 balancing account. Therefore, implicit in the PBA Stipulation is the parties' agreement
12 that *all* amounts booked were properly the responsibility of customers. The form of the
13 recovery—whether by operation of the account or amortization—is not relevant to the logic
14 or spirit of that agreement. Allowing the Company to fully recover the balance of the PBA
15 is consistent with the agreements underlying the PBA Stipulation.

16 **Q. Has the Commission also determined that FAS 87 pension expense is appropriately**
17 **recovered in rates from customers?**

18 A. Yes. In Docket No. UM 1633, the Commission spent over two years investigating the
19 treatment of pension expenses, and ultimately reaffirmed that utilities should recover their
20 pension costs from customers using FAS 87 pension expense.¹⁸ The Stipulating Parties
21 agree that the FAS 87 pension expense recorded in the PBA is properly recoverable from
22 customers.

¹⁸ *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 (Aug. 3, 2015).

1 **Q. Are the financing costs associated with the PBA balance also properly recoverable**
2 **in customers' rates?**

3 A. Yes. In accordance with the PBA Stipulation, the parties anticipated that customers would
4 bear the costs of financing the PBA account balance. Because the liability accumulating
5 in the PBA is growing faster than was anticipated, the Stipulating Parties determined that
6 it would be prudent to reduce and pay down the PBA balance as quickly as possible to
7 minimize financing costs associated with the PBA balance.

8 **Q. AWEC also suggests that there is no need to ensure that NW Natural recovers the**
9 **amounts in the PBA, arguing that NW Natural assumed the "risk" that the balance**
10 **might not reverse as intended.¹⁹ Is this true?**

11 A. There is no part of the PBA Stipulation that either anticipates that the balance might not
12 reverse as intended or assigns that risk to NW Natural. Regardless, all parties are
13 disadvantaged by the current situation and all parties will benefit by the resolution
14 proposed in the stipulation. Also, AWEC's assertion that the Company assumed a risk of
15 not recovering any portion of the pension costs flowing through the PBA is contrary to the
16 Commission's established policy of allowing FAS 87 expense in rates.

17 ***Prudence of Amounts in PBA***

18 **Q. AWEC claims that the Commission needs to open a separate docket to investigate**
19 **whether the amounts in the PBA have been prudently incurred, raising several**
20 **questions that AWEC claims should be investigated. Do you agree that further**
21 **prudence review is appropriate?**

¹⁹ AWEC/600, Mullins/9.

1 A. No. As part of the PBA Stipulation, the parties to that agreement implicitly agreed that the
2 amounts recorded in the PBA account were prudently incurred—including financing
3 costs—and were the responsibility of customers. The PBA Stipulation did not contemplate
4 any further prudence review of the amounts recorded in the account.

5 Moreover, as mentioned above, the parties have been discussing potential
6 recovery of the amounts in the PBA since settlement—and AWEC has been raising
7 hypothetical concerns about the prudence of amounts in the balancing account—for many
8 months. AWEC was entirely capable of investigating any questions it may have had. The
9 fact is, AWEC has not cited a single piece of evidence or argument to suggest that the
10 amounts in the balancing account are imprudently incurred—and there is no basis for such
11 a suggestion.

12 Pension actuarial assumptions are reset every year and therefore prudence review
13 of the assumptions underlying the FAS 87 calculations is a forward looking exercise. Staff
14 has reviewed the pension footnotes disclosures regarding actuarial assumptions between
15 2011 and 2017 and did not propose a prudency adjustment.²⁰ The information AWEC
16 proposes to review is for the most part available in the public domain as part of the
17 Company's various regulatory and financial filings. Furthermore, the Company specifically
18 discussed its funding policies in response to Staff DR 228 on Feb 16, 2018.

19 FAS 87 has been the basis of pension recovery in Oregon for decades. In Docket
20 No. UM 1633 the parties took a deep dive into historic pension recovery. In that case,
21 CUB Exhibits 101 through 107 looked at historic pension recovery since 1984 for each

²⁰ Staff/300, Fox/36.

1 regulated utility. In that analysis there was no evidence that pension expense recovery
2 through FAS 87 has ever been subject to a prudence disallowance.²¹

3 Finally, FAS 87 amounts have been booked to the balancing account since its
4 inception, many years ago, and no party has raised any concerns about them. If any party
5 had concerns regarding the prudence of NW Natural's FAS 87 expense, they could have
6 and should have raised them at the time. It is not correct to say that there has been no
7 opportunity for review of the Company's pension expense.

8 ***Application of Tax Benefits to Reduce the Balance of the PBA***

9 **Q. Please describe how certain benefits of tax reform will be applied to reduce the**
10 **balance of the PBA.**

11 A. The Stipulating Parties agreed to apply to the PBA \$5.9 million for the amounts deferred
12 in the Interim Period Tax Deferral, plus interest, and \$6.7 million of EDIT (Other Non-
13 Plant).²²

14 **Q. AWEC claims that customers will be harmed if the tax benefit is offset against the**
15 **PBA—because the tax benefit will be effectively amortized over the ten-year period**
16 **that the balancing account amounts are amortized—thereby depriving customers**
17 **of the time value of money.²³ Is there any merit to this argument?**

18 A. No. AWEC's argument about the time value of money completely ignores the fact that,
19 per the PBA Stipulation, the amounts in the PBA are currently accruing interest at NW

²¹ *In the Matter of Pub. Util. Comm'n of Or., Investigation into Treatment of Pension Costs in Utility Rates*, Docket No. UM 1633, CUB's Exhibits, CUB/101, 102, 103, 104, 105, 106 and 107 (Dec. 19, 2013).

²² The calculation of these amounts was provided as an exhibit to the joint testimony in support of the Second Stipulation. Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/1-2.

²³ AWEC/600, Mullins/6.

1 Natural's authorized rate of return, and that by using the tax benefit to offset the amounts
2 in the PBA, customers are *immediately* realizing the benefits of tax reform.

3 **Q. AWEC repeatedly suggests that consideration of the tax benefits from the TCJA**
4 **should not be “commingled” with consideration of the appropriate treatment for**
5 **PBA, suggesting that there is something inherently wrong with the approach.²⁴ Are**
6 **there any legal or policy impediments to applying a portion of the tax benefits from**
7 **the TCJA to reducing the PBA balance?**

8 A. No. The TCJA benefits will be applied to the PBA balance for the benefit of customers by
9 reducing the liability in the account, thereby potentially shortening the period over which
10 the balance of the account will be recovered and decreasing the amount of interest to be
11 paid over time. This approach is similar to how the parties agreed to use the Idaho Power
12 interim benefit tax benefit to offset obligations incurred by customers related to the early
13 closure of the Valmy plant.²⁵

14 **Q. AWEC also claims that instead of “earmarking” \$6.7 million of unprotected EDIT**
15 **funds for paying down the PBA balance, those amounts should be refunded to**
16 **transportation customers.²⁶ Do you agree?**

17 A. No. There is no reason why that amount should be refunded solely to transportation
18 customers. The benefit associated with the \$6.7 million of unprotected EDIT was funded
19 by *all customers*, and should be used for the benefit of *all customers*. The proposed
20 application of this amount to pay down the PBA balance will benefit all customers, and
21 results in equal treatment for all customer groups.

²⁴ AWEC/600, Mullins/6.

²⁵ See Order No. 18-199.

²⁶ AWEC/600, Mullins/17-18.

1 **Q. AWEC proposes that any TCJA benefits should be credited directly to rates rather**
2 **than applied to the pension balancing account, and that any resolution of the**
3 **pension balancing account balance should be deferred and addressed in a new**
4 **docket. Is AWEC’s proposal a reasonable alternative?**

5 A. No. AWEC’s proposal, while providing some benefit to customers in the short term, will
6 harm customers by delaying resolution of the PBA issues. The Stipulating Parties believe
7 that it is in customers’ best interest to reduce and pay down the PBA balance as quickly
8 as possible, and the proposed application of the Interim Period tax benefit amount to
9 reduce the PBA balance will help to achieve this end. Similar to the approach with Idaho
10 Power’s Valmy plant, the Stipulating Parties here made a sound policy decision to use tax
11 benefits to achieve a desired outcome that benefits the Company and customers.

12 ***Amortization of PBA Account Balance***

13 **Q. AWEC claims that the PBA Stipulation explicitly prohibits amortizing the PBA**
14 **balance in the event that the balances fail to reverse and become negative.²⁷ Is this**
15 **accurate?**

16 A. No. AWEC grossly mischaracterizes the PBA Stipulation—no portion of the PBA
17 Stipulation addresses the circumstances that are currently at issue. The portion of the
18 PBA Stipulation cited by AWEC for this assertion, Paragraph 4, simply provides that the
19 Company may not unilaterally request amortization of the amounts in the balancing
20 account while the account is still active. Nothing in the PBA Stipulation prohibits parties
21 from joint proposing to freeze the PBA and amortize the balance.

²⁷ AWEC/600, Mullins/2.

1 **Q. AWEC claims that the Second Stipulation provides for amortization of \$94.6 million**
2 **of the PBA balance, but the Stipulating Parties describe the amortization of the PBA**
3 **balance as \$82 million.²⁸ Can you explain the distinction between these amounts?**

4 A. The Stipulating Parties describe the total amount to be amortized as \$82 million, because
5 \$8.2 million will be amortized over ten years. AWEC, on the other hand, includes the
6 amount of tax benefits to be applied as an offset to the PBA in the total amount that they
7 describe as being “amortized.” Thus, AWEC describes the amount to be amortized as
8 \$94.6 million.

9 **Q. AWEC notes that NW Natural never formally requested amortization of the PBA**
10 **during the evidentiary phase of this docket. Why didn’t NW Natural propose**
11 **amortization of the PBA in its testimony?**

12 A. As NW Natural explained in its testimony in this case, the resolution of the PBA Stipulation
13 specifically prohibits individual parties from proposing that the FAS 87 pension expense
14 recovered by the Company be increased, and NW Natural had hoped to resolve the PBA
15 issues—both recovery of past and future pension expense amounts—through consensus.
16 Importantly, the resolution of the PBA cannot be addressed in a piecemeal fashion, and
17 could not be fully resolved without also addressing the need to increase the level of
18 recovery for FAS 87 pension expense. As the Stipulating Parties explained in their joint
19 testimony in support of the Second Stipulation, the resolution of the PBA in the Second
20 Stipulation is a comprehensive solution that addresses the issues with the growing PBA
21 balance and future recovery of FAS 87 expense.

²⁸ AWEC/600, Mullins/7.

1 **Q. AWEC also claims that the PBA Stipulation requires an earnings review before**
2 **amortizing the PBA balance.²⁹ Do you agree?**

3 A. No. The PBA Stipulation contemplated that an earnings review would be performed *after*
4 the PBA balance becomes negative.³⁰ The current circumstances of the PBA differ from
5 those contemplated for an earnings review in the PBA Stipulation, and thus do not apply.
6 In any event, the Stipulating Parties agree that the proposed approach in the Second
7 Stipulation regarding PBA issues should supersede the PBA Stipulation.

8 **V. IMPACTS OF TAX REFORM**

9 ***Background Regarding Impacts of Tax Reform in this Case***

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

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

- 16 (1) Adjusting base rates to reflect the lower tax rate of 21 percent;
- 17 (2) Calculating and determining the regulatory treatment of the remeasured excess
18 deferred income tax (EDIT) (including impacts on the Company's rate base
19 associated with providing benefits to customers from the remeasured EDIT); and
20 (3) Calculating and determining the regulatory treatment of the tax benefits for the
21 period January 1, 2018 to October 31, 2018 (Interim Period).

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

²⁹ AWEC/600, Mullins/10-11.

³⁰ Order No. 11-051, App. A at 3-4.

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

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

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

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

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

15 **Q. Please summarize the Stipulating Parties' agreements regarding the tax-related
16 issues in Second Stipulation.**

17 A. The Second Stipulation includes the following elements on tax-related issues:
18 • The Stipulating parties agree that NW Natural properly recorded the remeasurement
19 of regulated utility EDIT as a result of the TCJA. Specifically, NW Natural recorded a
20 remeasurement of regulated utility deferred income taxes of \$156.8 million on a
21 system-wide basis. The figure is comprised of balances related to Plant, Other Non-
22 Plant, and Non-Plant Gas Reserves in the amounts of \$140.62 million, \$5.45 million,

- 1 and \$10.76 million, respectively. The sum of these figures, grossed up for income
2 taxes, equals \$213.30 million.³¹
- 3 • NW Natural will return to customers EDIT (Plant), subject to the average rate
4 assumption method (ARAM), in the amount of \$3.26 million per year in base rates
5 beginning on the rate effective date.
 - 6 • NW Natural will return to sales customers \$14.64 million of EDIT (Non-Plant Gas
7 Reserves), inclusive of a gross up for income taxes, over five years through a separate
8 tariff rider.
 - 9 • NW Natural will credit to customers' benefit \$6.67 million of EDIT (Other Non-Plant)
10 reflected as a one-time reduction to the PBA as described in Paragraph 10 of the
11 Second Stipulation.
 - 12 • Effective on the rate effective date, rate base will be increased by \$22.15 million to
13 reflect the EDIT being provided to customers as part of the Second Stipulation. This
14 increase to rate base results in a \$2.06 million increase to revenue requirement.
 - 15 • In the Company's next general rate case, or five years from the date of the rate
16 effective date, whichever is sooner, the amount of plant-related EDIT being amortized
17 subject to ARAM will be reviewed and adjusted as appropriate based on the remaining
18 balance of the EDIT and normalization requirements under ARAM. In the event that
19 an adjustment to the amortization of EDIT occurs outside of a general rate case, the
20 adjustment would be made through a separate tariff rider, and rate base would not be
21 adjusted until the Company's next general rate case.

³¹ These amounts, and the allocation for Oregon, are included in Exhibit A to the Second Stipulation.

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

12 **Q. What are AWEC's primary objections to the Second Stipulation with respect to**
13 **addressing the impacts of the TCJA in rates for NW Natural?**

14 A. AWEC makes both procedural and substantive objections to the Second Stipulation.
15 AWEC's procedural objections to the Second Stipulation are that the tax issues are too
16 complicated to be resolved at this time, and that it did not have adequate time to review
17 and vet the calculation of the Interim Period deferral amount. AWEC's primary substantive
18 objections regarding the tax issues are that the Interim Period deferral tax benefit should
19 be larger than agreed to in the Second Stipulation, and AWEC objects to the use of ARAM
20 to determine the plant-related EDIT amortization amounts—though AWEC generally
21 concludes that the \$3.26 million of plant-related EDIT to be amortized in rates is within
22 AWEC's range of reasonableness based on AWEC's own calculations.³²

³² AWEC/600, Mullins/3, 16-17, 22.

1 **Q. AWEC makes several sweeping—and inaccurate—statements regarding the**
2 **impacts of the TCJA as they relate to regulatory accounting and ratemaking**
3 **treatment tax-related amounts. Could you please respond these misstatements?**

4 A. Yes. First, AWEC states that: “The TCJA codifies several normalization provisions
5 surrounding the treatment of [EDIT], which prescribes specific treatment of the balance
6 sheet impacts of the tax law change for public utilities.”³³ This statement is inaccurate.
7 NW Natural’s balance sheet accounting is not governed by the TCJA. The financial
8 accounting and reporting is governed by accounting standards established by the
9 Financial Accounting Standards Board (FASB), the Federal Energy Regulatory
10 Commission (FERC), and the Commission’s oversight.³⁴

11 Additionally, AWEC states that “The TCJA, however, simplifies the ratemaking
12 treatment surrounding the tax changes by prescribing the specific methods that must be
13 used by regulators...”³⁵ and states this is “...a rare instance where the Internal Revenue
14 Service may exercise authority over the specific ratemaking methodology that state
15 regulatory commissions use to establish public service rates.”³⁶ This statement is also
16 inaccurate. The U.S. federal income tax legislation, or the TCJA, applies primarily to one
17 thing—NW Natural’s federal income tax return. The TCJA in no way dictates the required
18 ratemaking by state utility commissions. Although the income tax normalization rules
19 should be made a part of ratemaking considerations, they do not govern or specify a
20 particular outcome on their own.³⁷

³³ AWEC/600, Mullins/18.

³⁴ NW Natural/2500, Borgerson/21.

³⁵ AWEC/600, Mullins/19.

³⁶ AWEC/600, Mullins/19-20.

³⁷ NW Natural/2500, Borgerson/21.

1 ***AWEC's Procedural Concerns Regarding Tax Issues in the Second Stipulation***

2 **Q. AWEC asserts that it is too late in the proceeding to address complicated tax**
3 **issues.³⁸ Do you agree?**

4 A. No. Analysis of federal income tax reform, by all did not begin with the filing of the Second
5 Stipulation. The parties to this proceeding—including AWEC—have been discussing and
6 evaluating the proper treatment of the impacts of tax reform throughout this entire
7 proceeding. AWEC initiated its first TCJA-related discovery request in March of 2018 (UG
8 344 AWEC (aka NWIGU) DR 38). Further discussion and analysis regarding the
9 regulatory impacts of the TCJA for NW Natural have been ongoing and were made a part
10 of every parties testimony filed since April 20, 2018.³⁹ The regulatory TCJA impacts were
11 an integral part of settlement discussions that resulted in the Second Stipulation and
12 AWEC participated in those discussions, and related discovery, until they presumptively
13 withdrew from the settlement process mid-way through. In sum, the treatment of impacts
14 of the TCJA has been the subject of discovery, testimony, settlement workshops, and
15 AWEC has repeatedly advocated that the tax issues be addressed in this proceeding.⁴⁰

16 **Q. AWEC asserts that “the [\$5.9M] amount [for the Interim Period deferral] was first**
17 **presented in NW Natural’s Final Brief, but otherwise I have found no evidentiary**
18 **support in the record.”⁴¹ Is this true?**

³⁸ AWEC/600, Mullins/22.

³⁹ AWEC/200 Mullins/5.

⁴⁰ AWEC’s Opening Brief at 5 (“AWEC respectfully requests that the Commission consider all known effects of tax reform, or the best available estimate of those effects, in the rates that go into effect on November 1, 2018.”); AWEC/500, Mullins/12 (“it is wholly appropriate to consider the amortization of the interim period tax savings in this docket”); AWEC/200, Mullins/14 (recommending that interim period deferral be returned through base rates).

⁴¹ AWEC/600, Mullins/13.

1 A. No. NW Natural described the latest forecast for the Interim Period amount in its Opening
2 Brief, which was filed on August 14, 2018. While not technically a part of the record in *this*
3 case, NW Natural provided an update in Docket No. UM 1919 on July 15, 2018, explaining
4 that the most recent forecast for the Interim Period amount was \$5.9 million. Importantly,
5 AWEC is a party to that proceeding. Additionally, NW Natural made the complete Interim
6 Period Deferral workpapers for this calculation available to all parties through discovery
7 during settlement discussions. An electronic copy of NW Natural's Interim Period Deferral
8 workpapers was provided to AWEC (on CD via courier) as a confidential document on
9 July 30, 2018.

10 **Q. AWEC complains that it did not have access to the workpapers supporting the**
11 **calculation of the Interim Period deferral amount until only a few days prior to the**
12 **filing of its testimony objecting to the Second Stipulation.⁴² Is this accurate?**

13 A. No. As described above, an electronic copy of NW Natural's Interim Period Deferral
14 workpapers was provided to AWEC via courier on July 30, 2018. In addition, AWEC
15 recently requested another copy of this same set of workpapers (AWEC DR 61). This
16 additional copy of the Interim Period deferral calculation workpapers was provided to
17 AWEC on September 24, 2018, seven days before the extended due date of AWEC's
18 testimony in objection of the Second Stipulation.

19 ***Calculation and Treatment of the Interim Period Amount***

20 **Q. Please describe how the Stipulating Parties calculated the Interim Period deferral**
21 **amount.**

⁴² AWEC/600, Mullins/13.

1 A. To determine the net reduction to income tax expense from the TCJA, NW Natural utilized
2 a results of operations format to perform a “with” and “without” TCJA calculation. Based
3 on the Company’s current projections, which have been updated quarterly to reflect the
4 most recent data, and which include actual results through June 2018, the Stipulating
5 Parties estimate that the amount of the tax benefit accruing during the Interim Period is
6 \$5.9 million.⁴³

7 **Q. Is AWEC’s proposed Interim Period deferral calculation methodology a reasonable**
8 **alternative?**

9 A. No. AWEC includes two different Interim Period deferral methodologies in its testimony
10 objecting to the Second Stipulation. One method uses calendar year 2017 results of
11 operations as a proxy, and the other uses data from NW Natural’s last rate case in 2012.
12 Neither of these methods considers the actual Interim Period benefit that occurred in 2018.

13 NW Natural previously explained why AWEC’s proposed Interim Period Deferral
14 methodology was inappropriate. The primary issue is that “AWEC proposes to use a
15 formula to calculate the Interim Period Deferral benefit, which, “...can be performed
16 without considering the utility’s results....”⁴⁴ It is necessary to consider normalized tax
17 expense in the Interim Period, in the context of other revenue and expenses forecasted in
18 the same interim period.⁴⁵ The Stipulating Parties’ selection of 2018 for the Interim Period

⁴³ *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).

⁴⁴ NW Natural/2500, Borgerson/8. 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.

⁴⁵ Order No. 12-437 at 26 (addressing a change to NW Natural’s Oregon State income tax rate, the Commission stated that “it is improper to consider changes to components of the revenue requirement in isolation.”)

1 is consistent with ORS 757.269 because it results in an outcome that, “[r]eflect[s] all known
2 changes to tax and accounting laws or policy that would affect the calculated taxes.”⁴⁶

3 **Q. AWEC states that “[t]he actual federal tax expenses of the utility in the Interim
4 Period is irrelevant because rates are not based on actual tax expenses.”⁴⁷ Do you
5 agree?**

6 A. No. As required by ORS 757.269, the income taxes included in the development of
7 regulated utility rates are based on a well-scrutinized forecast. The Stipulating Parties
8 considered normalized tax expenses in the Interim Period, in the context of other revenue
9 and expenses occurring in the same Interim Period, which is consistent with ORS 757.269.

10 **Q. AWEC claims that NW Natural never attempted to present or justify an approach
11 different than what AWEC recommended in its opening testimony.⁴⁸ Is this correct?**

12 A. No. NW Natural has discussed the Interim Period deferral approach a number of times
13 during this proceeding and the method employed by NW Natural has remained unchanged
14 since its adoption in January of 2018. AWEC even included NW Natural’s response to
15 DR 42 as an exhibit to its testimony,⁴⁹ in which the Company discussed the February 2018
16 tax workshop and explained its methodology for calculating the Interim Period deferral.
17 AWEC filed this exhibit (along with its related testimony) on June 20, 2018. The Company
18 also explained its approach to the Interim Period deferral calculation in its surrebuttal
19 testimony, dated July 9, 2018.⁵⁰

⁴⁶ ORS 757.269(2)(c).

⁴⁷ AWEC/600, Mullins/14.

⁴⁸ AWEC/600, Mullins/14.

⁴⁹ AWEC/502.

⁵⁰ NW Natural/2500, Borgerson/6 (“To estimate the net reduction to income tax expense from the TCJA, NW Natural is utilizing a 2018 results of operations report format to perform a “with” and “without” TCJA calculation. This methodology is consistent with the approach outlined by NW Natural at the tax workshop held on February 28, 2018, and the follow up direction provided via email by Staff’s counsel at the Oregon Department of Justice.”).

1 The Company also provided the complete workpapers for this calculation to all
2 parties through discovery during settlement discussions. An electronic copy of NW
3 Natural's Interim Period deferral calculation workpapers was provided to AWEC (on CD
4 via courier) as a confidential document on July 30, 2018.

5 **Q. AWEC also objects to the proposed application of the Interim Period amount to the**
6 **PBA balance, and recommends instead that the Commission credit the Interim**
7 **Period amount to customers over two years. AWEC further recommends that the**
8 **Commission set provisional amortization of the Interim Period at \$5 million, subject**
9 **to a true up and further exploration of these issues in the TCJA Deferral Dockets.**
10 **Do you agree with this approach?**

11 A. No. As explained above, the Stipulating Parties believe it is in customers' best interests
12 to reduce the PBA balance as quickly as possible, and that application of the benefits of
13 tax reform is appropriate to achieve this end. While AWEC's approach would provide
14 some benefit to customers, the Stipulating Parties believe that the agreements in the
15 Second Stipulation, taken as a whole, will result in greater benefits for customers.

16 ***Use of ARAM for Plant-Related EDIT***

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

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

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

1 A. The federal normalization rules indicate that ARAM is the primary method to be used to
2 develop the annual “speed limit” test for amortization of plant-related EDIT.⁵¹ However, if
3 the data to prepare the ARAM schedule is not available, then the TCJA provides that the
4 Reverse South Georgia Method (RSGM) can be used as an alternative—but only for
5 vintages that lack adequate data.⁵² Because NW Natural has adequate granular data to
6 use ARAM for all years, ARAM must be used.

7 **Q. AWEC’s testimony suggests that the NW Natural is free to use either of two different**
8 **methods to determine the amortization of EDIT—either ARAM or the RSGM (which**
9 **AWEC calls the “Alternative Method”).⁵³ Could the Company simply choose to**
10 **apply one method or the other?**

11 A. No. These two methodologies, ARAM and RSGM, are not equal in status. As explained
12 above, if a taxpayer has adequate data to calculate an amortization schedule under the
13 ARAM method, then it is **required** to do so. The RSGM, which is more akin to a straight-
14 line method, is only to be used in the rare instances where a taxpayer lacks sufficient data
15 to prepare the ARAM schedule, and even then the data sufficiency analysis is on a vintage
16 by vintage basis. In these cases, a company would end up with some vintages being
17 calculated using ARAM and others using RSGM.

18 **Q. AWEC asserts that “NW Natural has not provided the data necessary to support the**
19 **calculation of the ARAM, which [AWEC] understand[s] is being done using the**

⁵¹ 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 Natural referred to this as a “speed limit” for return of EDIT. 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. NW Natural/2500, Borgerson/21-23.

⁵² NW Natural/2500, Borgerson/23-24.

⁵³ AWEC/600, Mullins/20.

1 **PowerTax software”⁵⁴ and claims “[t]he PowerTax modules appear to be making a**
2 **number of assumptions that reserves have accumulated to the vintages in**
3 **proportion to book values, which is not how the depreciation study operates.” Is**
4 **AWEC correct?**

5 A. No. First, NW Natural has provided the data necessary to support the calculation of
6 ARAM. NW Natural previously provided AWEC with accumulated book and income tax
7 depreciation by vintage, for the calendar years ending 2017, 2018, and 2019, and noted
8 that this was the same information used by NW Natural to determine the ARAM
9 amortization.⁵⁵

10 Second, NW Natural does not use PowerTax software, thus any algorithm
11 assumptions that might be included in this software module, and which may be of concern
12 to AWEC, would not impact NW Natural’s calculation of ARAM.

13 **Q. AWEC also claims NW Natural’s calculation is based on manufactured book**
14 **depreciation reserve values.⁵⁶ Is this accurate?**

15 A. No, AWEC’s statement is false. NW Natural’s calculation of accumulated book
16 depreciation is not “manufactured.” NW Natural’s annual book depreciation rates are
17 developed for each FERC plant account classification, of which there are many. The
18 depreciation rate developed for each FERC plant account is then applied to the assets
19 within that respective FERC plant account to determine depreciation expense and
20 accumulated depreciation. In other words, the development of an annual rate may be

⁵⁴ AWEC/600, Mullins/21.

⁵⁵ AWEC/601, Mullins/10.

⁵⁶ AWEC/600, Mullins/17.

1 performed at a FERC plant account, or “group” level, but the actual depreciation
2 accounting is performed and tracked at a more granular level.

3 **Q. According to AWEC, “[t]o perform the ARAM properly, one must be able to calculate**
4 **the amount of book-tax reversals by FERC account and vintage.”⁵⁷ Is this true?**

5 A. No. The ARAM calculation is actually defined as being calculated on a vintage by vintage
6 basis. There is no guidance that performing the calculation at a more detailed level (i.e.,
7 by FERC account balance within each vintage) is preferred or required. A related IRS
8 Private Letter Ruling 200743030 was included as Exhibit AWEC/503, Mullins/5, which
9 clarifies that ARAM is a vintage approach:

10 “...under ARAM, excess tax reserves pertaining to a particular vintage or vintage
11 account are not flowed through to ratepayers until such time as the timing
12 differences in the particular vintage account reverse.”

13 Beyond the fact that there is no requirement or preference for performing the
14 ARAM calculation at a level of detail greater than by vintage, doing so would not result in
15 a different outcome. The hierarchy of detail in this case, beginning with the highest, is
16 total plant balance, vintage (year) plant balance, FERC account balance (within each
17 vintage) and then individual assets. There may even be some additional detail within each
18 individual asset – such as a component.

19 To break this concept down into simple terms, if we have a barrel (i.e., vintages)
20 of carrots (i.e., FERC accounts), we can weigh each carrot in the barrel individually to
21 determine the barrel weight, or we can weigh the barrel. The answer should be the
22 same. NW Natural prepared ARAM workpapers at the required vintage/barrel level.

⁵⁷ AWEC/600, Mullins/21.

1 Finally, as a practical matter, ARAM is only designed to mimic how deferred tax
2 balances would have reversed in the future in the absence of the TCJA. It provides a
3 reliable estimate of the expected pattern of future income tax payments to the federal
4 government, which as a result of the TCJA, are now being evaluated for future credits to
5 utility ratepayers. In addition, ARAM is not even the required method of actually amortizing
6 EDIT for utility customers. It is simply the normalization speed limit test with which to
7 evaluate an amortization schedule that is agreed to with state regulators.

8 **Q. AWEC states that “[u]tilities that use composite depreciation rates to calculate**
9 **accumulated book reserves lack the sufficient vintage data to perform the ARAM.”⁵⁸**
10 **Is this correct?**

11 A. No. IRS Private Letter Ruling 200743030 was included as Exhibit AWEC/503, Mullins/5,
12 and liberally references IRS Revenue Procedure 88-12, which states, “A method of
13 depreciation that uses a weighted average life or composite rate focuses on the entire
14 plant and does not account for property by vintage accounts. Consequently, taxpayers
15 that use this method may not have adequate data to apply the average rate assumption
16 method.”

17 As documented in AWEC/601 Mullins/4, NW Natural’s annual book depreciation
18 rates are developed for each FERC plant account classification, of which there are many.
19 The depreciation rate developed for each FERC plant account is then applied to the assets
20 within that respective FERC plant account to determine depreciation expense and
21 accumulated depreciation. In other words, the development of an annual rate may be

⁵⁸ AWEC/600, Mullins/17.

1 performed at a FERC plant account, or “group” level, but the actual depreciation
2 accounting is performed and tracked at a more granular level.

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

5 A. The Stipulating Parties determined that \$3.26 million of EDIT (Plant) per year would be
6 returned to customers in base rates, beginning on the rate effective date, as shown in
7 Exhibit NW Natural-Staff-CUB/201, Borgerson, Wilson, Gardner, and Jenks/1. The
8 amount of \$3.26 million is the average of the first five years of grossed up ARAM
9 amortization as presented on line F in Exhibit NW Natural/2501, Borgerson/1. The
10 Stipulating Parties agreed this was a reasonable result because it will result in a fixed
11 amount being returned to customers and will thus avoid additional rate fluctuations over
12 the next five years, and will provide a timely return of the benefits of tax reform.
13 Additionally, the parties do not expect that returning \$3.26 million per year will result in a
14 normalization violation.

15 **Q. Does AWEC object to the calculation of plant-related EDIT in the Second**
16 **Stipulation?**

17 A. No. AWEC indicates that the amortization of \$3.26 million of plant-related EDIT is within
18 AWEC’s range of reasonableness based on AWEC’s own calculations.⁵⁹

19 **Q. Does AWEC concede that most of its EDIT-related objections are moot?**

20 A. Yes—AWEC states “much of this controversy is moot, since NW Natural’s calculation is
21 very close to the amount [AWEC] calculate[d] using the Alternative Method.”⁶⁰

⁵⁹ AWEC/600, Mullins/3, 16-17, 22.

⁶⁰ AWEC/600, Mullins/22.

1 **Q. Should the Commission adopt AWEC's recommendation to specifically not adopt**
2 **the use of ARAM in determining the amortization of plant-related EDIT?**

3 A. No. As demonstrated by the record in this case, ARAM is the appropriate methodology to
4 determine the amortization schedule of NW Natural's plant-related EDIT. There is no
5 reason for the Commission to decline to acknowledge that ARAM was appropriately used
6 in this case.

7 ***Earnings Review for Tax Benefits***

8 **Q. Are there additional benefits in the Second Stipulation that were not addressed by**
9 **AWEC?**

10 A. Yes. The Company's agreement to forgo earnings review for tax benefits was a key
11 element of the Second Stipulation with substantial benefits for customers.

12 **Q. Can you please describe the agreement in the Second Stipulation regarding**
13 **earnings review for tax benefits?**

14 A. The Stipulating Parties agreed that NW Natural would forgo any sharing of deferred
15 amounts that it would otherwise be allowed to recover under any earnings review the
16 Commission may apply before amortization of amounts in the Interim Period Tax Deferral
17 and the EDIT in the TCJA Deferral Dockets.

18 **Q. How did the Stipulating Parties reach this agreement?**

19 A. As NW Natural explained in its opening brief, the Company believed that an earnings
20 review would apply to determine whether any sharing of the deferred amounts would apply
21 before amortization of those amounts to customers.⁶¹ Staff and CUB recommended that
22 no earnings sharing should apply, and as a compromise and part of the overall terms of

⁶¹ NW Natural's Opening Brief at 37-38.

1 the Second Stipulation, the Company agreed to waive any earnings sharing that may
2 otherwise apply.

3 **VI. REASONABLENESS OF THE SECOND STIPULATION**

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

6 A. The Stipulating Parties recommend and request that the Commission approve the Second
7 Stipulation in its entirety. The Second Stipulation presents a comprehensive resolution of
8 the PBA issues and appropriately addresses all remaining impacts of the TJCA.

9 AWEC's objections to the Second Stipulation have no merit and are largely based
10 on either false or misleading statements. The Stipulating Parties have endeavored to
11 correct the record through this joint reply testimony. Ultimately, AWEC has not raised any
12 legitimate procedural or substantive concerns that should impact the Commission's
13 evaluation of the Second Stipulation. After consideration of all the issues raised by AWEC,
14 the Stipulating Parties continue to believe that adoption of the Second Stipulation is
15 consistent with the public interest and will result in rates that are fair, just, and reasonable.

16 **Q. Did parties have enough time to review, consider, and evaluate the various**
17 **elements of the Second Stipulation?**

18 A. Yes. The parties in this case have been discussing the issues addressed in the Second
19 Stipulation throughout the course of this proceeding, and have had ample time to evaluate
20 and vet the elements of the Second Stipulation through discovery, parties' testimony,
21 settlement negotiations, and informal conversations. The Second Stipulation was the
22 product of robust discussion and investigation, and represents a reasonable resolution of
23 the PBA and tax issues that was achieved through compromise among the Stipulating
24 Parties.

1 **Q. Is the resolution of the PBA issues proposed in the Second Stipulation consistent**
2 **with the public interest?**

3 A. Yes. Throughout this proceeding, CUB argued that it was imperative to find a workable
4 and creative solution to lead to the termination and closure of the Company's PBA. By
5 capturing the TCJA benefits and applying them to the remaining balance of the PBA, the
6 Second Stipulation enables customers to realize those benefits in a way that also shields
7 them from an increasingly expanding PBA due to financing costs associated with the PBA
8 balance that are accruing at the Company's authorized rate of return.

9 Ensuring that the PBA reaches a zero balance in a ten-year window from the
10 Second Stipulation also avoids ongoing issues associated with intergenerational equity.
11 CUB believes the Second Stipulation is in the public interest and benefits customers by
12 protecting them from an increasingly expanding account. The last docket opened to
13 address pension costs, Docket No. UM 1633, lasted for over two years. Deferring
14 resolution of this issue into a new pension docket will unnecessarily result in additional
15 costs for customers.

16 The Stipulating Parties agree that it is important to draw down the balance in the
17 PBA quickly, and that applying some of the benefits of tax reform to accomplish this end
18 is a thoughtful and creative approach to reduce the impacts to customers of doing so.
19 Paying down the balance quickly and minimizing the interest incurred on the balance will
20 benefit customers by reducing the overall amount that customers pay over time.

21 **Q. Does the proposed resolution of the TCJA and PBA in Second Stipulation promote**
22 **rate stability?**

23 A. Yes. The Second Stipulation, taken as a whole, promotes rate stability by offsetting certain
24 balances and establishing level amortization of both the PBA and ARAM components.

1 AWEC's suggestion to refund the tax benefits now, keep the tax calculations open and
2 subject to revision, and defer resolution of the PBA until later will cause a large rate
3 decrease likely followed by a large rate increase.

4 **Q. Does the resolution of the TCJA impacts agreed to in the First and Second**
5 **Stipulations result in a rate outcome that is fair, just and reasonable?**

6 Yes. The Stipulating Parties believe that the First and Second Stipulations,
7 considered together, result in overall rates that are fair, just, and reasonable.

8 The Company believes that resolution of these issues in the rate case is
9 appropriate because over the course of the negotiations, the Stipulating Parties were able
10 to spend a significant amount of time and attention to carefully consider the calculations
11 and proposed regulatory treatment of the benefits of tax reform. NW Natural believes that
12 the Second Stipulation provides a fair resolution of the impacts of the TCJA. In particular,
13 NW Natural believes that the calculation and proposed treatment of the EDIT amounts will
14 provide customers with the full benefits of tax reform on a timely basis, and give
15 appropriate deference to the ARAM limitations for plant related EDIT to avoid a
16 normalization violation.

17 Staff believes the terms of the Second Stipulation are consistent with Commission
18 policy and precedent. Staff's position on these adjustments is supported by its testimony,
19 a further evaluation of the available information and of risks, including discussions in
20 settlement and workshops, and the conclusion that the agreed-to adjustments fall within
21 a reasonable range of outcomes at this time.

22 CUB believes the Second Stipulation is reasonable because it accurately captures
23 the benefits of the TCJA to the Company and flows them through to ratepayers in a
24 concrete manner.

1 **Q. Is the reasonableness of the Second Stipulation supported by the record in this**
2 **case?**

3 A. Yes. In addition to the joint testimony offered by the Stipulating Parties in support of the
4 Second Stipulation, the Stipulating Parties have addressed AWEC's objections through
5 this joint reply testimony in support of the Second Stipulation. The Stipulating Parties
6 believe the record in this case supports the Commission's adoption of the Second
7 Stipulation.

8 **Q. Does this conclude your testimony?**

9 A. Yes.