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March 20, 2018

NWN Advice No. OPUC 17-22
Supplement A

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

**Re: UG 344 – Supplemental Testimony – Tax Reform
Application of NW Natural for a General Rate Revision**

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or “Company”), files herewith Supplemental Direct Testimony of Kevin McVay regarding updates to Test Year and Revenue Requirements along with updates to Exhibits 202, 207 and 1101, the Direct Testimony offered in this proceeding.

Please address correspondence on this matter to me with copies to the following:

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Please call me if you have questions.

Sincerely,

NW NATURAL

/s/ Mark R. Thompson

Mark R. Thompson
Manager, Rates & Regulatory Affairs

enclosures

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

UG 344

NW Natural

Supplemental Direct Testimony of Kevin McVay

**UPDATES TO TEST YEAR / REVENUE
REQUIREMENTS
EXHIBIT 1200**

March 2018

**EXHIBIT 1200 – SUPPLEMENTAL DIRECT TESTIMONY
UPDATES TO TEST YEAR / REVENUE REQUIREMENTS**

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I. Introduction and Summary.....1

1 I. **INTRODUCTION AND SUMMARY**

2 **Q. Please state your name and position at Northwest Natural Gas Company**
3 **(“NW Natural” or the “Company”).**

4 A. My name is Kevin S. McVay. My current position is Revenue Requirements
5 Analytics Consultant. My responsibilities for preparation of the revenue
6 requirement for this rate case included direction of the load forecasting work and
7 rate base development, coordination of tax issues, and forecasting of
8 miscellaneous revenues and other taxes.

9 **Q. Did you previously provide testimony in this rate proceeding?**

10 A. Yes, I provided Direct Testimony appearing as NW Natural/200 and related
11 exhibits.

12 **Q. What is the purpose of this Supplemental Testimony?**

13 A. As described in my Direct Testimony, at the time the application for a general
14 rate revision was being finalized, federal tax reform appeared imminent but had
15 not been finalized. I stated that if a tax reform bill is passed, NW Natural would
16 make appropriate supplemental filings to reflect the implication of tax reform on
17 NW Natural's rates. *NW Natural/200, McVay/16*. This testimony provides that
18 supplement, and shows the impact of tax reform on the revenue requirement
19 increase that NW Natural is requesting.

20 In this testimony, I also update depreciation expense, to reflect a
21 correction so that the filing shows the appropriate application of the depreciation

1 study approved by the Commission in Docket No. UM 1808 (Order 18-007,
2 January 5, 2018).

3 **Q. Please explain the updates to the tax areas of revenue requirement for the**
4 **rate case.**

5 A. There are two elements of the revenue requirements model that are affected by
6 tax reform. The first impact is the direct change in income tax expenses based
7 on the reduction of the federal income tax rate from 35% to 21%. The second
8 occurs in the accumulated deferred tax component of rate base, which reflects
9 the loss of the higher “bonus” depreciation that had previously been available on
10 a phase-out basis through the test year.

11 **Q. Please describe the change associated with the Company’s tax expense.**

12 A. In my initial testimony, the Company’s federal income tax expense was provided
13 on line 11 of NW Natural/207, McVay, 1, which was based on the then effective
14 35% tax rate. On January 1, 2018, the federal income tax rate for corporations
15 was reduced from 35% to 21%. As a result, the Company has updated tax
16 expense in line 11, row “d” of NW Natural/1201 (updating NW Natural/207) to
17 reflect the new tax rate. Additionally, the tax expense was affected by changes
18 to permanent difference amounts included in the tax expense calculations
19 resulting from the new law.

20 **Q. Please further describe the changes to permanent differences that are**
21 **included in the calculation of tax expense.**

2 – SUPPLEMENTAL DIRECT TESTIMONY OF KEVIN MCVAY

1 A. There were two changes to the permanent differences as a result of the new law.
2 The first change was to recognize that the Meals and Entertainment deduction
3 for tax would be completely eliminated under the new law, as compared to the
4 50% deduction that had been available. The other change was to reflect that
5 expenditures supporting employee use of mass transit and other transportation
6 benefits by employees are no longer deductible for tax purposes. The new
7 permanent differences for both the Base and Test Year are shown on line 9 of
8 NW Natural/1201 (updating NW Natural/207).

9 **Q. Please describe the second element of tax reform as it applies to the**
10 **revenue requirement in the rate case.**

11 A. The second tax reform-related update is to the accumulated deferred income tax
12 element of rate base. The original filed rate case included beneficial “bonus”
13 depreciation in its calculation of incremental deferred taxes. Under the prior law,
14 utilities were able to immediately deduct an extra or “bonus” amount of
15 depreciation related to new investment. The bonus was 50% of new investment
16 in 2017, but phasing out to 40% in 2018 and 30% in 2019, after which the bonus
17 depreciation would discontinue. Under the new law, no bonus rates at all are
18 available for investment after September 27, 2017. Without the bonus level of
19 depreciation for purposes of tax calculations, the traditional MACRS accelerated
20 tax depreciation schedules are used, but provide a lower tax deduction, and
21 produce lower incremental deferred taxes. The decrease in Oregon accumulated
22 deferred taxes from the previously filed rate base is \$4.2 million for the Base

3 – SUPPLEMENTAL DIRECT TESTIMONY OF KEVIN MCVAY

1 Year, and \$26.1 million for the Test Year. The Base Year levels are changed
2 due to the law's retroactive elimination of bonus treatment starting in September
3 2017.

4 **Q. Please explain the updates that you made to depreciation expense.**

5 A. In Docket UM 1808, the parties agreed that the Company would use the
6 stipulated depreciation rates as the basis for its depreciation rates in its next rate
7 case.¹ In developing our rates for the rate case based on the stipulated
8 depreciation rates, the Company used a forecasting model to calculate
9 depreciation expense and accumulated depreciation for future months through
10 the end of the Test Year. During the discovery process, Staff requested an
11 Excel-based file to review our plant and depreciation calculations in the rate case
12 rather than the forecasting model that the Company used to generate the gross
13 plant, accumulated depreciation, and depreciation expense. In response to this
14 request, we provided an excel-based file that generated the rate case numbers
15 for Staff.

16 In the process of producing the new model, however, it was noted that the
17 results of the stipulated depreciation rates were not entirely incorporated into the
18 calculation of depreciation expense in our filed rate case. Most notably, there
19 were several depreciation rates that were incorrect per the stipulated
20 depreciation rates approved by the Commission, and also the amortization

¹ *In the Matter of NW Natural's Updated Depreciation Study*, UM 1808, Order No. 18-007, Jan. 5, 2018.

1 credits that were determined in the stipulation had not been applied. Additionally,
2 to implement the amortization method on several plant accounts per the
3 stipulated depreciation rates, a retirement of plant assets was included in those
4 accounts for assets that would have been completely amortized by November 1,
5 2018, the implementation date of the study. Those issues are all corrected with
6 this filing. Those corrections are evidenced on line 15 of Exhibit NW
7 Natural/1202 (updating NW Natural/202).

8 **Q. Did you make any other changes to the original filing made by NW Natural?**

9 A. No, I have not made any other changes to the original filing made by NW Natural.
10 The changes reflected in this supplemental filing are limited to the updates to
11 reflect the impacts of tax reform on the filing, and the updates to depreciation
12 expense described.

13 **Q. What is the net effect of the changes you have made on NW Natural's**
14 **originally requested revenue requirement in this case?**

15 A. The overall effect is to reduce the requested increase in revenue requirement
16 from \$52.45 million (or \$40.38 after the adjustment for decoupling is factored in),
17 to \$37.8 million (or \$25.7 after the decoupling adjustment).

18 **Q. Please describe the impact of the change in the revenue requirement to the**
19 **proposed revenue increases by rate schedule and the average bill impacts.**

20 A. As shown on NW Natural/1203 (updating NW Natural/1102), the total revenue
21 increase on a percentage basis is lower for each rate than it was as compared to
22 the original filing. The overall rate increase as shown on that schedule is 6.05%,

5 – SUPPLEMENTAL DIRECT TESTIMONY OF KEVIN MCVAY

1 as compared to 8.39% originally, and the percentage change in revenue for
2 residential customers is 6.52%, as compared to 9.04% originally.

3 **Q. Does this conclude your direct testimony?**

4 Yes.

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

UG 344

NW Natural

Supplemental Exhibits of Kevin McVay

**UPDATES TO TEST YEAR / REVENUE
REQUIREMENTS
EXHIBITS 1201-1203**

March 2018

SUPPLMENTAL EXHIBITS 1201 – 1203
UPDATES TO TEST YEAR / REVENUE REQUIREMENTS

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NW Natural
Oregon Jurisdictional Rate Case
Tax Provision
Test Year Twelve Months Ended October 31, 2019
Base Year Twelve Months Ended December 31, 2017
(\$000)

Line No.	BASE YEAR		TEST YEAR		
	State Taxes	Federal Taxes	State Taxes	Federal Taxes	
	(a)	(b)	(c)	(d)	
1	Operating Revenues	\$653,277	\$653,277	\$642,157	\$642,157
2	Operating Revenue Deductions	428,821	428,821	427,211	427,211
3	Property & Other Taxes	43,656	43,656	45,696	45,696
4	Book Depreciation	71,362	71,362	76,371	76,371
5	Interest (Rate Base * Cost of Debt)	28,592	28,592	31,788	31,788
6	Remove Equity Flotation			(1,198)	(1,198)
7	State Tax Deduction	0	6,756	0	5,304
8	Subtotal	80,846	74,090	62,289	56,985
9	Permanent Differences 1/	8,062	7,240	7,501	6,727
10	Taxable Income	88,908	81,330	69,790	63,712
11	Tax Rate	7.60%	35.00%	7.60%	21.00%
12	Tax Before Credits	6,757	28,466	5,304	13,380
13	Credits (R&D)	(1)	(126)	0	(76)
14	Total Tax	\$6,756	\$28,340	\$5,304	\$13,304

NW Natural
Oregon Jurisdictional Rate Case
Test Year Twelve Months Ended October 31, 2019
Base Year Twelve Months Ended December 31, 2017
Increase in Revenue Requirement
(\$'000)

Line No.	Base Year at Present Rates (a)	Adjustments to Base Year (b)	Test Year at Present Rates (c)	Removal of Test Year Decoupling (d)	Adjusted Test Year at Present Rates (e)	Required Increase (f)	Proposed Total (g)
Operating Revenues							
1	\$637,346	(\$27,330)	\$610,016	\$0	\$610,016	\$37,816	\$647,831
2	17,390	(743)	16,647	0	16,647	0	16,647
3	11,599	469	12,068	(12,068)	0	0	0
4	(16,622)	16,622	0	0	0	0	0
5	3,564	(138)	3,426	0	3,426	0	3,426
6	653,277	(11,120)	642,157	(12,068)	630,089	37,816	667,904
Operating Revenue Deductions							
7	291,761	(14,907)	276,854	0	276,854	0	276,854
8	716	(7)	710	0	710	43	753
9	136,344	13,305	149,648	0	149,648	0	149,648
10	428,821	(1,610)	427,211	0	427,211	43	427,254
11	28,340	(15,037)	13,304	(2,279)	11,024	7,133	18,158
12	6,756	(1,452)	5,304	(893)	4,411	2,794	7,205
13	20,448	1,934	22,382	0	22,382	0	22,382
14	23,208	106	23,315	(322)	22,992	1,010	24,002
15	71,362	5,009	76,371	0	76,371	0	76,371
16	578,935	(11,050)	567,886	(3,494)	564,392	10,980	575,372
17	\$74,342	(\$71)	\$74,271	(\$8,574)	\$65,697	\$26,836	\$92,533
Average Rate Base							
18	2,576,151	255,048	2,831,198	0	2,831,198	0	2,831,198
19	(1,143,047)	(101,861)	(1,244,909)	0	(1,244,909)	0	(1,244,909)
20	1,433,104	153,186	1,586,290	0	1,586,290	0	1,586,290
21	(3,298)	(179)	(3,476)	0	(3,476)	0	(3,476)
22	(4,189)	340	(3,849)	0	(3,849)	0	(3,849)
23	54,775	(19,402)	35,373	0	35,373	0	35,373
24	9,087	1,312	10,399	0	10,399	0	10,399
25	(396,737)	(13,104)	(409,841)	0	(409,841)	0	(409,841)
26	\$1,092,742	\$122,154	\$1,214,895	\$0	\$1,214,895	\$0	\$1,214,895
27	6.80%		6.11%		5.41%		7.62%
28	8.37%		6.99%		5.58%		10.00%

NW Natural
Oregon Jurisdictional Rate Case
Test Year Twelve Months Ended October 31, 2019
Rate Spread Study
Allocation by Rate Schedule Summary

Line No.	Rate Schedule	Total Revenue at Present		Proposed Revenue		Total Revenue at Proposed Rates		Total Revenue Increase		Percentage Increase to Average Bill
		Rates	Increase	Increase	Proposed Rates	Percentage Increase	Percentage Increase	Percentage Increase		
1	02	\$ 387,770,097	\$ 25,275,253	\$ 413,045,351	6.52%	6.60%				
2	03CSF	\$ 137,975,522	\$ 7,721,679	\$ 145,697,201	5.60%	5.68%				
3	03ISF	\$ 3,740,132	\$ 193,679	\$ 3,933,810	5.18%	5.26%				
4	27CSF	\$ 1,038,854	\$ 60,544	\$ 1,099,398	5.83%	5.90%				
5	31CSF	\$ 18,521,031	\$ 905,032	\$ 19,426,063	4.89%	5.03%				
6	31CTF	\$ 1,113,636	\$ 120,334	\$ 1,233,970	10.81%	10.84%				
7	31ISF	\$ 8,813,710	\$ 347,437	\$ 9,161,147	3.94%	4.03%				
8	31ITF	\$ 89,844	\$ 9,708	\$ 99,552	10.81%	10.84%				
9	32 CSF	\$ 24,565,050	\$ 966,478	\$ 25,531,528	3.93%	4.44%				
10	32ISF	\$ 7,608,655	\$ 225,316	\$ 7,833,971	2.96%	3.38%				
11	32TF	\$ 7,460,021	\$ 806,090	\$ 8,266,111	10.81%	13.79%				
12	32CSI	\$ 9,271,906	\$ 238,950	\$ 9,510,856	2.58%	3.37%				
13	32ISI	\$ 10,710,650	\$ 276,028	\$ 10,986,678	2.58%	3.32%				
14	32TI	\$ 6,194,584	\$ 669,354	\$ 6,863,938	10.81%	11.44%				
15	33T	\$ -	\$ -	\$ -	0.00%	0.00%				
16	Total	\$ 624,873,692	\$ 37,815,882	\$ 662,689,574	6.05%					



**CERTIFICATE OF SERVICE
UG 344**

I hereby certify that on March 20, 2018 I have served by electronic mail the foregoing SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBITS OF KEVIN MCVAY TO NW Natural's Oregon General Rate Revision upon all parties of record in docket UG 344, which is the Company's current general rate case.

UG 344

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DATED March 20, 2018, Portland, OR.

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