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November 29, 2018

VIA ELECTRONIC

Attention: Filing Center
Public Utility Commission of Oregon
P.O. Box 1088
Salem, Oregon 97308-1088

Re: Docket UG 344: NW Natural's Supplemental Testimony

Attention Filing Center:

Enclosed for filing in the above-referenced docket is an electronic copy of NW Natural's Supplemental Testimony and Exhibits of Brody Wilson in Phase II of the docket.

Please contact this office with any questions.

Sincerely,


Wendy McIndoo
Office Manager

Enclosures

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

UG 344 – Phase II

NW Natural

Supplemental Testimony of Brody Wilson

PENSION BALANCING ACCOUNT

Exhibit 3000

EXHIBIT 3000 – UG 344 PHASE II
SUPPLEMENTAL TESTIMONY OF BRODY WILSON
PENSION BALANCING ACCOUNT
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I. INTRODUCTION AND SUMMARY 1

II. SUMMARY OF AMOUNTS RECORDED TO PBA 2

I. INTRODUCTION AND SUMMARY

1 **Q. Please state your name and position.**

2 A. My name is Brody Wilson. I am Vice President, Treasurer, Controller and Chief
3 Accounting Officer at NW Natural Gas Company (NW Natural, or Company).

4 **Q. Have you previously provided testimony in this docket?**

5 A. Yes. I have previously filed testimony in Phase I of this docket. Specifically, I filed: NW
6 Natural/2600, NW Natural-Staff-CUB/200-203 and 300. I also filed testimony in Phase II
7 of this docket: NW Natural/2800-2801.

8 **Q. What is the purpose of your supplemental testimony?**

9 A. The purpose of my supplemental testimony is to provide additional support for the
10 accuracy of the amounts booked by NW Natural to its pension balancing account (PBA),
11 as discussed on pages 25 and 26 of my opening testimony in Phase II of this
12 docket. Specifically, I stated that “[t]he Company is currently preparing a summary of the
13 amounts recorded to the pension balancing account over the life of the account tied back
14 to the Company’s third-party actuarial statements, and will make these available as a
15 supplement to this testimony as soon as practicable.”¹ I have included exhibits
16 summarizing the amounts recorded to the pension balancing account and providing
17 excerpts of the Company’s third-party actuarial statements, and my testimony will explain
18 these exhibits.

¹ NW Natural/2800, Wilson/25-26.

II. SUMMARY OF AMOUNTS RECORDED TO PBA

1 **Q. Please describe the Company's summary of the amounts recorded to the PBA.**

2 A. As shown in Exhibit NW Natural/3001, NW Natural prepared a summary of the amounts
3 recorded to the PBA from 2011 through October 2018. The amount of the system-wide
4 FAS 87 expense ties out to the Company's third-party actuarial statements, which are
5 provided as Exhibit NW Natural/3002.² Additionally, in response to Data Request (DR) 67
6 issued by the Alliance of Western Energy Consumers (AWEC), NW Natural provided all
7 parties with all of the monthly journal entries, workpapers supporting the monthly journal
8 entries, and account reconciliations for pension balancing account entries.³

9 **Q. Please explain the calculation of the FAS 87 expense recorded to the PBA shown in**
10 **NW Natural/3001.**

11 A. The Company starts with the amount of system-wide FAS 87 for each year as provided in
12 the Company's third party-actuarial statements, and then a portion of that amount is
13 allocated to operations and maintenance expense (O&M) and the remainder is capitalized.
14 The O&M-allocated amount is further adjusted to reflect only the percentage allocated to
15 Oregon. The result is the amount of Oregon-allocated, non-capitalized FAS 87 expense.
16 The Company then applies the amount collected in rates for FAS 87 expense, \$3.8 million,
17 and the remainder is the excess FAS 87 amount that is recorded to the PBA each year.

² Note that for 2011 and 2012, the Company had separate actuarial reports for bargaining unit (BU) employees and non-bargaining unit (NBU) employees. The amounts highlighted in the BU and NBU reports for 2011 and 2012 total to the amounts provided in NW Natural/3001 for system-wide FAS 87 expense for those years. From 2013 on, the FAS 87 expenses for BU and NBU employees were grouped together in one report for each year.

³ Note that NW Natural is not including the response to AWEC DR 67 as an exhibit with this supplemental testimony because it is voluminous.

1 Additionally, the Company included a calculation of the interest that accrued to the PBA
2 each year.

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

4 **A. Yes.**

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

UG 344 – Phase II

NW Natural

Supplemental Testimony of Brody Wilson

**PENSION BALANCING ACCOUNT
Exhibits 3001-3002**

November 29, 2018

EXHIBITS 3001-3002 – PENSION BALANCING ACCOUNT

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Exhibit 3001 – PBA Summary Data 1
Exhibit 3002 – Actuarial Reports 2011-2018 PBA Expense..... 20

	2011	2012	2013	2014	2015	2016	2017	2018 (to October 2018)
System-Wide FAS 87 Expense	16,295,255	19,143,533	21,514,241	14,187,012	20,772,490	17,271,567	18,126,300	17,323,970
O&M Allocation (remainder capitalized)*	66.70%	67.10%	66.40%	65.60%	64.40%	64.40%	63.50%	63.20%
% Allocation to Oregon	90.20%	90.50%	90.20%	90.20%	90.00%	90.20%	89.80%	88.50%
FAS 87 Expense - Non-Capitalized and Oregon Allocated	9,803,964	11,671,675	12,910,610	8,373,783	12,037,059	10,047,781	10,338,033	13,477,524
FAS 87 Collected in Oregon Rates**	3,796,055	3,796,055	3,796,055	3,796,055	3,796,055	3,796,055	3,796,055	3,163,380
OR O&M FAS 87 in excess of rates and deferred to the Pension Balancing Account^	6,007,909	7,875,620	9,114,555	4,577,728	8,241,004	6,251,726	6,541,978	10,314,144
Interest accrued to the PBA	234,378	903,997	1,576,811	2,249,908	2,965,951	3,780,615	4,579,476	4,645,489
Fiscal year ending balance of Pension Balancing Account	6,242,287	15,021,904	25,713,270	32,540,906	43,747,861	53,780,202	64,901,656	79,861,289

*Note that effective 1/1/2018, NW Natural adopted ASU 2017-07 for ratemaking purposes. The update limits pension expense subject to capitalization to the non-service component. The non-service component of FAS 87 expense for FY 2018 is \$6,814,715 (when prorated to October, \$5,678,929).

** 2018 amount collected in rates is prorated through October. $\$3,796,055 * (10/12) = \$3,163,380$

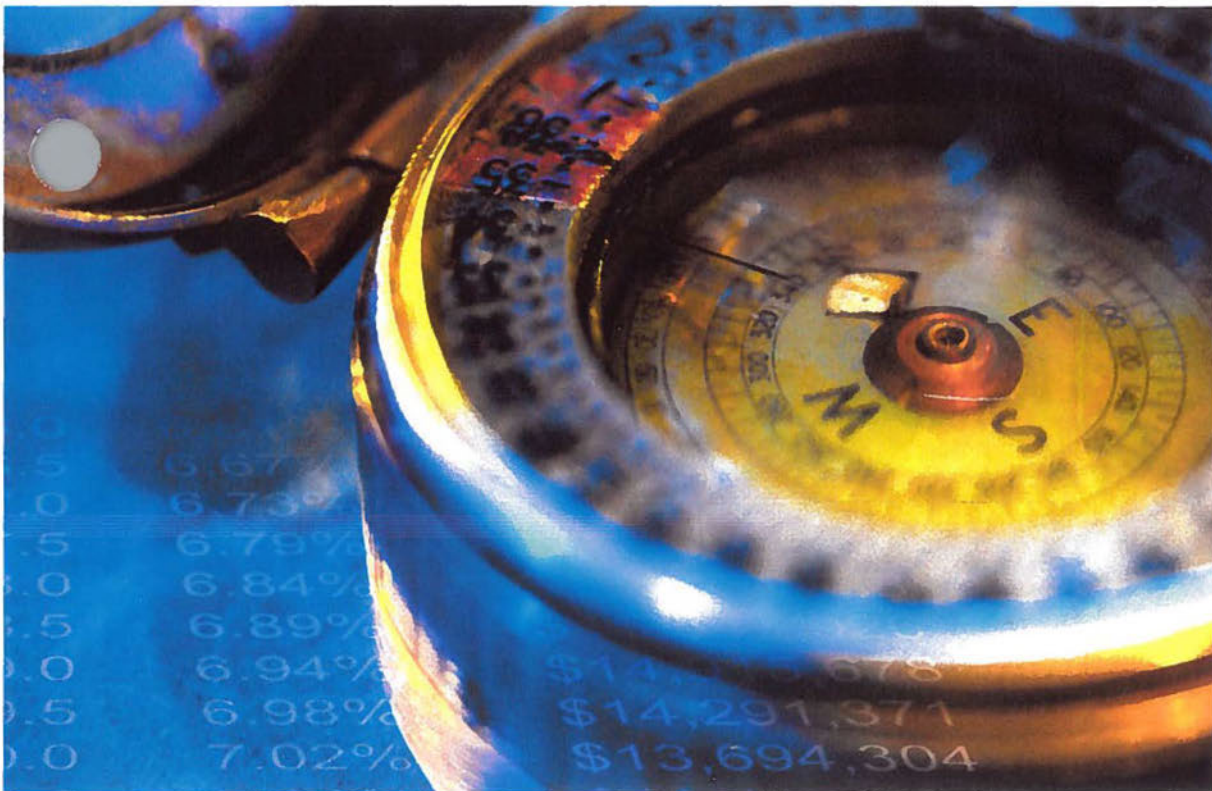
^ Balance shown represents actual amount deferred to the balancing account. The calculated balance for each year may differ slightly due to immaterial rounding differences and or adjustments made between years. The net of such differences is less than \$65,000. We have provided to parties all monthly journal entries for the PBA that show these adjustments in AWEC DR #67.



Northwest Natural Gas Company

Northwest Natural Retirement Plan for Bargaining Unit Employee

As of January 1, 2011





Northwest Natural Gas Company

ASC 715 Pension Cost/(Income)

	Fiscal 2010	Fiscal 2011
Service cost	\$ 3,234,588	\$ 3,615,365 ✓
Interest cost	\$ 8,886,568	\$ 8,991,826 ✓
Expected return on assets	\$ (9,620,515)	\$ (9,379,869) ✓
Amortization of:		
Transition (asset)/obligation	\$ 0	\$ 0 ✓
Prior service cost	42,139	42,139 ✓
Net (gain)/loss	<u>3,352,303</u>	<u>5,466,617</u> ✓
Total	\$ 3,394,442	\$ 5,508,756
Net periodic pension cost/(income)	\$ 5,895,083	\$ 8,736,078 ✓
Settlement/curtailment cost/(income)	<u>0</u>	<u>0</u>
Total cost/(income)	\$ 5,895,083	\$ 8,736,078
Key Assumptions		
Discount rate	6.00%	5.49% ✓
Expected long-term rate of return	8.25%	8.25%
Additional Information		
Assumed expenses in service cost (if \$0, rate of return is assumed net of expenses)		\$ 0
Expected benefit payments		\$ 9,100,840
Expected contributions		\$ 12,130,547
Market-related value of assets		\$ 110,087,667
Average remaining service		10.10 years



uarial Report

Northwest Natural Gas Company

Northwest Natural Retirement Plan for Non Bargaining Unit Empl
As of January 1, 2011



ASC 715 Pension Cost/(Income)

	Fiscal 2010	Fiscal 2011
Service cost	\$ 2,754,583	\$ 2,800,714 ✓
Interest cost	\$ 7,764,730	\$ 7,793,023 ✓
Expected return on assets	\$ (8,586,738)	\$ (8,486,926) ✓
Amortization of:		
Transition (asset)/obligation	\$ 0	\$ 0 ✓
Prior service cost	188,214	188,214 ✓
Net (gain)/loss	<u>3,388,174</u>	<u>5,264,152</u> ✓
Total	\$ 3,576,388	\$ 5,452,366
Net periodic pension cost/(income)	\$ 5,508,963	\$ 7,559,177 ✓
Settlement/curtailment cost/(income)	<u>0</u>	<u>0</u>
Total cost/(income)	\$ 5,508,963	\$ 7,559,177
Key Assumptions		
Discount rate	5.97%	5.46% ✓
Expected long-term rate of return	8.25%	8.25%
Additional Information		
Assumed expenses in service cost (if \$0, rate of return is assumed net of expenses)		\$ 0
Expected benefit payments		\$ 7,926,105
Expected contributions		\$ 9,891,256
Market-related value of assets		\$ 100,302,914
Average remaining service		8.16 years

Consulting
Retirement

Actuarial Valuation Report

Northwest Natural Gas Company

Northwest Natural Retirement Plan for Bargaining Unit Employees

As of January 1, 2012



ASC 715 Pension Cost/(Income)

	Fiscal 2011	Fiscal 2012
Service Cost	\$ 3,615,365	\$ 4,355,976
Interest Cost	\$ 8,991,826	\$ 8,587,545
Expected Return on Assets	\$ (9,379,869)	\$ (10,132,492)
Amortization of:		
Transition (Asset)/Obligation	\$ 0	\$ 0
Prior Service Cost	42,139	42,139
Net (Gain)/Loss	<u>5,466,617</u>	<u>7,399,358</u>
Total	\$ 5,508,756	\$ 7,441,497
Net Periodic Pension Cost/(Income)	\$ 8,736,078	\$ 10,252,526
Settlement/Curtailment Cost/(Income)	<u>0</u>	<u>0</u>
Total Cost/(Income)	\$ 8,736,078	\$ 10,252,526
Key Assumptions		
Discount Rate	5.49%	4.52%
Expected Long-Term Rate of Return	8.25%	8.00%
Additional Information		
Assumed Expenses in Service Cost (if \$0, Rate of Return is Assumed Net of Expenses)		\$ 0
Expected Benefit Payments		\$ 9,072,289
Expected Contributions		\$ 13,950,000
Market-Related Value of Assets		\$ 120,669,405
Average Remaining Service		9.53 years

Consulting
Retirement

Actuarial Valuation Report

Northwest Natural Gas Company

*Northwest Natural Retirement Plan for Non Bargaining Unit
Employees*

As of January 1, 2012



Northwest Natural Gas Company

ASC 715 Pension Cost/(Income)

	Fiscal 2011	Fiscal 2012
Service Cost	\$ 2,800,714	\$ 3,106,070
Interest Cost	\$ 7,793,023	\$ 7,464,491
Expected Return on Assets	\$ (8,486,926)	\$ (8,949,913)
Amortization of:		
Transition (Asset)/Obligation	\$ 0	\$ 0
Prior Service Cost	188,214	188,214
Net (Gain)/Loss	<u>5,264,152</u>	<u>7,082,145</u>
Total	\$ 5,452,366	\$ 7,270,359
Net Periodic Pension Cost/(Income)	\$ 7,559,177	\$ 8,891,007
Settlement/Curtailment Cost/(Income)	<u>0</u>	<u>0</u>
Total Cost/(Income)	\$ 7,559,177	\$ 8,891,007
Key Assumptions		
Discount Rate	5.46%	4.50%
Expected Long-Term Rate of Return	8.25%	8.00%
Additional Information		
Assumed Expenses in Service Cost (if \$0, Rate of Return is Assumed Net of Expenses)		\$ 0
Expected Benefit Payments		\$ 8,517,014
Expected Contributions		\$ 9,550,000
Market-Related Value of Assets		\$ 109,581,796
Average Remaining Service		8.00 years

Consulting
Retirement

Actuarial Valuation Report

Northwest Natural Gas Company

*Retirement Plan for Bargaining Unit and Non Bargaining Unit
Employees of Northwest Natural Gas Company*

As of January 1, 2013



Northwest Natural Gas Company

ASC 715 Pension Cost/(Income)

	Fiscal 2012	Fiscal 2013
Service Cost	\$ 7,462,046	\$ 7,989,755
Interest Cost	\$ 16,052,036	\$ 15,271,527
Expected Return on Assets	\$ (19,082,405)	\$ (18,721,301)
Amortization of:		
Transition (Asset)/Obligation	\$ 0	\$ 0
Prior Service Cost	230,353	230,353
Net (Gain)/Loss	<u>14,481,503</u>	<u>16,743,907</u>
Total	\$ 14,711,856	\$ 16,974,260
Net Periodic Pension Cost/(Income)	\$ 19,143,533	\$ 21,514,241
Settlement/Curtailment Cost/(Income)	<u>0</u>	<u>0</u>
Total Cost/(Income)	\$ 19,143,533	\$ 21,514,241
Key Assumptions		
Discount Rate	4.50%/4.52%	3.87%
Expected Long-Term Rate of Return	8.00%	7.50%
Additional Information		
Assumed Expenses in Service Cost (if \$0, Rate of Return is Assumed Net of Expenses)		\$ 0
Expected Benefit Payments		\$ 18,058,128
Expected Contributions		\$ 11,700,000
Market-Related Value of Assets		\$ 252,770,744
Average Remaining Service		8.62 years

Consulting
Retirement

Actuarial Valuation Report

Northwest Natural Gas Company

*Retirement Plan for Bargaining Unit and Non Bargaining Unit
Employees of Northwest Natural Gas Company*

As of January 1, 2014

Reflects the Highway and Transportation Funding Act of 2014



Northwest Natural Gas Company

ASC 715 Pension Cost/(Income)

	Fiscal 2013	Fiscal 2014
Service Cost	\$ 7,989,755	\$ 6,682,297
Interest Cost	\$ 15,271,527	\$ 16,947,714
Expected Return on Assets	\$ (18,721,301)	\$ (19,495,787)
Amortization of:		
Transition (Asset)/Obligation	\$ 0	\$ 0
Prior Service Cost	230,353	230,353
Net (Gain)/Loss	<u>16,743,907</u>	<u>9,822,435</u>
Total	\$ 16,974,260	\$ 10,052,788
Net Periodic Pension Cost/(Income)	\$ 21,514,241	\$ 14,187,012
Settlement/Curtailment Cost/(Income)	<u>0</u>	<u>0</u>
Total Cost/(Income)	\$ 21,514,241	\$ 14,187,012
Key Assumptions		
Discount Rate	3.87%	4.75%
Expected Long-Term Rate of Return	7.50%	7.50%
Additional Information		
Assumed Expenses in Service Cost (if \$0, Rate of Return is Assumed Net of Expenses)		\$ 0
Expected Benefit Payments		\$ 18,027,729
Expected Contributions		\$ 10,500,000
Market-Related Value of Assets		\$ 261,808,153
Average Remaining Service		9.33 years



Actuarial Valuation Report

Northwest Natural Gas Company

*Retirement Plan for Bargaining Unit and Non Bargaining Unit
Employees of Northwest Natural Gas Company*

As of January 1, 2015

ASC 715 Pension Cost/(Income)

	Fiscal 2014	Fiscal 2015
Service Cost	\$ 6,682,297	\$ 7,730,377
Interest Cost	\$ 16,947,714	\$ 17,115,645
Expected Return on Assets	\$ (19,495,787)	\$ (20,675,756)
Amortization of:		
Transition (Asset)/Obligation	\$ 0	\$ 0
Prior Service Cost	230,353	230,353
Net (Gain)/Loss	<u>9,822,435</u>	<u>16,371,871</u>
Total	\$ 10,052,788	\$ 16,602,224
Net Periodic Pension Cost/(Income)	\$ 14,187,012	\$ 20,772,490
Settlement/Curtailment Cost/(Income)	<u>0</u>	<u>0</u>
Total Cost/(Income)	\$ 14,187,012	\$ 20,772,490
Key Assumptions		
Discount Rate	4.75%	3.88%
Expected Long-Term Rate of Return	7.50%	7.50%
Additional Information		
Assumed Expenses in Service Cost (if \$0, Rate of Return Is Assumed Net of Expenses)		\$ 0
Expected Benefit Payments		\$ 18,897,121
Expected Contributions		\$ 14,108,111
Market-Related Value of Assets		\$ 277,476,709
Average Remaining Service		9.09 Years



Actuarial Valuation Report

Northwest Natural Gas Company

Retirement Plan for Bargaining Unit and Non Bargaining Unit
Employees of Northwest Natural Gas Company

As of January 1, 2016

Aon Hewitt
Retirement & Investment

Northwest Natural Gas Company
Proprietary and Confidential

ASC 715 Pension Cost/(Income)

	Fiscal 2015	Fiscal 2016
Service Cost	\$ 7,730,377	\$ 6,742,178
Interest Cost	\$ 17,115,645	\$ 17,115,408
Expected Return on Assets	\$ (20,675,756)	\$ (20,053,962)
Amortization of:		
Transition (Asset)/Obligation	\$ 0	\$ 0
Prior Service Cost	230,353	230,353
Net (Gain)/Loss	16,371,871	13,237,590
Total	\$ 16,602,224	\$ 13,467,943
Net Periodic Pension Cost/(Income)	\$ 20,772,490	\$ 17,271,567
Settlement/Curtailment Cost/(Income)	<u>0</u>	<u>0</u>
Total Cost/(Income)	\$ 20,772,490	\$ 17,271,567
Key Assumptions		
Discount Rate	3.88%	4.24%
Expected Long-Term Rate of Return	7.50%	7.50%
Additional Information		
Assumed Expenses in Service Cost (if \$0, Rate of Return Is Assumed Net of Expenses)		\$ 0
Expected Benefit Payments		\$ 19,729,675
Expected Contributions		\$ 14,470,000
Market-Related Value of Assets		\$ 269,372,004
Average Remaining Service		8.85 Years



Actuarial Valuation Report

Northwest Natural Gas Company

Retirement Plan for Bargaining Unit and Non Bargaining Unit
Employees of Northwest Natural Gas Company

As of January 1, 2017

ASC 715 Pension Cost/(Income)

	Fiscal 2016	Fiscal 2017
Service Cost	\$ 6,742,178	\$ 6,759,848
Interest Cost	\$ 17,115,408	\$ 16,870,615
Expected Return on Assets	\$ (20,053,962)	\$ (20,432,551)
Amortization of:		
Transition (Asset)/Obligation	\$ 0	\$ 0
Prior Service Cost	230,353	126,503
Net (Gain)/Loss	<u>13,237,590</u>	<u>14,801,885</u>
Total	\$ 13,467,943	\$ 14,928,388
Net Periodic Pension Cost/(Income)	\$ 17,271,567	\$ 18,126,300
Settlement/Curtailment Cost/(Income)	<u>0</u>	<u>0</u>
Total Cost/(Income)	\$ 17,271,567	\$ 18,126,300
Key Assumptions		
Discount Rate	4.24%	4.03%
Expected Long-Term Rate of Return	7.50%	7.50%
Additional Information		
Assumed Expenses in Service Cost (if \$0, Rate of Return Is Assumed Net of Expenses)		\$ 0
Expected Benefit Payments		\$ 20,710,451
Expected Contributions		\$ 19,430,000
Market-Related Value of Assets		\$ 272,783,366
Average Remaining Service		8.45 Years

ACTUARIAL VALUATION REPORT

Northwest Natural Gas Company
Retirement Plan for Bargaining Unit and Non Bargaining Unit Employees
of Northwest Natural Gas Company

For Plan Year Ending 12/31/2018
For Fiscal Year Ending 12/31/2018

September 2018

Fidelity Workplace Investing LLC

233 South Wacker Drive, Suite 4850
Chicago, IL 60606
Phone: 312-239-9101

ACCOUNTING RESULTS

FASB ASC 715: Development of Pension Expense

Components of net periodic benefit cost	
Service cost	\$ 6,814,715
Interest cost	15,762,594
Expected return on assets	(20,591,978)
Amortization of:	
Prior service costs	42,138
(Gains) or losses	<u>18,761,295</u>
Net periodic benefit cost	\$ 20,788,764
Additional expense	<u>0</u>
Total benefit cost	\$ 20,788,764
Assumptions	
Discount rate	3.54%
Expected return on assets	7.50%
Expected benefit payments	\$ 19,511,188
Expected contributions	\$ 12,470,000
Calculation of (gain)/loss amortization	
Unrecognized net (gain)/loss	\$ 180,317,423
Asset adjustment	<u>10,764,403</u>
Unrecognized (gain)/loss	\$ 191,081,826
(Gain)/loss amortization corridor	\$ 45,494,178
(Gain)/loss subject to amortization	145,587,648
Amortization period	7.76
(Gain)/loss amortization	\$ 18,761,295