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September 25, 2014

VIA ELECTRONIC FILING AND FIRST CLASS MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket UM 1633

Attention Filing Center:

Enclosed in the above-referenced docket are an original and five copies of NW Natural's Opening Testimony of Brody Wilson. The filing has been served on the parties to the service list as indicated on the attached Certificate of Service.

Please contact this office with any questions.

Very truly yours,

A handwritten signature in blue ink that reads "Wendy McIndoo".

Wendy McIndoo
Office Manager

cc: Service List

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

DOCKET NO. UM 1633

In the Matter of)
)
PUBLIC UTILITY COMMISSION OF)
OREGON,)
)
Investigation into Treatment of Pension)
Costs in Utility Rates.)

NORTHWEST NATURAL GAS COMPANY

OPENING TESTIMONY

OF

BRODY WILSON

September 25, 2014

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

2 A. My name is Brody Wilson. I am Controller and Chief Accounting Officer at
3 Northwest Natural Gas Company (“NW Natural” or “Company”).

4 **Q. Have you previously filed testimony in this case?**

5 A. Yes. I am one of the witnesses filing Joint Testimony on behalf of Portland
6 General Electric, PacifiCorp, Avista Utilities, Cascade Natural Gas, and NW
7 Natural Gas (collectively, “Joint Utilities”). We have filed Direct, Reply and
8 Opening testimony in this case. In addition I filed individual testimony in this
9 docket on behalf of NW Natural on March 12, 2014.

10 **Q. What is the purpose of this testimony?**

11 A. The purpose of this testimony is to respond to the request by the Public Utility
12 Commission of Oregon (“Commission”) to address questions regarding a
13 cash basis for utility recovery of pension expenses. All parties in this docket
14 have proposed that the Commission continue to rely on FAS 87 as the
15 primary method for recovery of pension expenses. After reviewing the
16 parties’ recommendations made in written testimony and at a workshop, the
17 Commission is now asking for additional testimony to help the Commission
18 understand the implications of and process for a transition to the use of cash
19 contributions to account for pension expense on a going-forward basis.
20 Specifically, the Commission has asked the parties to address what such a
21 transition would look like, including recommendations for the treatment of the
22 prepaid pension asset, the transition period, the mechanism to recover cash
23 contributions, and the mechanism to implement the transition.¹ The Joint
24 Utilities will respond to all of these issues as they relate to the Joint Utilities as

25 ¹ Prehearing Conference Memorandum, (July 10, 2014).
26

1 a group. The purpose of my individual testimony is to discuss the special
2 considerations the transition to cash would raise for NW Natural—namely the
3 need to deal with NW Natural’s existing FAS 87 balancing account.

4 II. DISCUSSION

5 **Q. Please summarize the reasons why NW Natural’s FAS 87 balancing**
6 **account was adopted.**

7 A. In 2010, in response to substantial increases in pension costs, and persistent
8 under-recovery of those costs in rates, NW Natural filed an application to
9 defer its excess pension expenses. As the Company explained in testimony,
10 pursuant to the Commission order in its 2003 rate case, it had been
11 recovering its pension expense through FAS 87, set at approximately \$3.9
12 million per year. In contrast, its actual FAS 87 pension was significantly
13 higher—at least twice the amount in rates in recent years. The Company also
14 requested that it be allowed to add its prepaid pension asset to rate base.
15 The parties did not agree to the rate base treatment of the prepaid pension
16 asset, but did stipulate that NW Natural would establish a balancing account
17 to track the differences between actual FAS 87 pension expenses
18 experienced by NW Natural, and the amount included in rates. The
19 Commission adopted the stipulation in Order No. 11-051.

20 **Q. How does the balancing account work?**

21 A. Pursuant to the stipulation, NW Natural continues to collect FAS 87 expense
22 at the same level as that set in its 2003 rate case, until that amount would be
23 reset in the future as explained below. NW Natural books pension expenses
24 and recoveries to the balancing account, and the balancing account accrues
25 interest at NW Natural’s currently authorized rate of return. NW Natural is to
26 continue booking expenses to the balancing account until the balance is a

1 negative number, after which amounts booked to the account will be subject
2 to an earnings test.² Then, after the next general rate case after the account
3 has become negative, the stipulation calls for the termination of the balancing
4 account. At that point, the Company may request that the balance be
5 amortized.³

6 **Q. What is the status of the balancing account today?**

7 A. The balancing account shows a positive balance of \$25.7 million at December
8 31, 2013. That means that since the account was established in 2011, the
9 Company's FAS 87 expense has exceeded amounts recovered by \$25.7
10 million through December 31, 2013.

11 **Q. Has the account balance ever been negative?**

12 A. No.

13 **Q. Assuming the Company continues to recover pension expense through**
14 **FAS 87, and at the same level included in rates today, at what point do**
15 **you expect a negative balance in the account?**

16 A. We currently project our pension expense and contributions out 10 years
17 (through 2023); during that projection period, we do not forecast that the
18 balance in the account will go negative. Our forecast currently shows the
19 balancing account is expected to grow through 2021 before it begins to
20 decrease slightly in 2022. This is largely the result of new legislation,
21 including MAP 21, and, more recently, the Highway and Transportation Act of
22 2014, which extends the transition of MAP 21 for an additional 5 years. Both
23 of these laws allow companies to delay funding of their pension plans, which

24 ² *Re Northwest Natural Gas Co.*, Docket UM 1475, Order No. 11-051, App. A at 3 (Feb. 10,
25 2011).

26 ³ *Id.* at 4.

1 acts in the short-term to keep pension expense high during the transition.
2 After 2022, we would expect to see a similar trend of decreased expense as a
3 result of increased contributions and thus a continued decrease in the
4 pension balancing account.

5 **Q. In the event that the Commission finds that the utilities should transition**
6 **to cash recovery of pension costs, what should happen with NW**
7 **Natural's FAS 87 balancing account?**

8 A. If the Commission finds that the utilities should transition to cash recovery, the
9 FAS 87 balancing account should be terminated, and the balance amortized.
10 Given the significant positive balance, NW Natural suggests that the balance
11 be amortized over a 5 year period, to minimize the impact on customer rates.

12 **Q. Is such amortization consistent with the Commission's order adopting**
13 **the balancing account?**

14 A. Yes. The Commission adopted the balancing account with the intent that
15 over time, the Company would recover its cumulative actual FAS 87 expense.
16 Moreover, the Commission specifically allowed for the amortization of any
17 balance left in the account at the time when the account is terminated.
18 Therefore, it is consistent with the Commission's order to allow NW Natural to
19 recover its cumulative FAS 87 expense through the amortization of the
20 amounts in the balancing account.

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

22 A. Yes.

23

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1 **CERTIFICATE OF SERVICE**

2 I hereby certify that I served a true and correct copy of the foregoing document in Docket UM
3 1633 on the following named person(s) on the date indicated below by email addressed to said
4 person(s) at his or her last-known address(es) indicated below.

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