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November 30, 2020

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: Application to Defer Costs Associated with NW Natural's Horizon 1 Project

In accordance with ORS 757.259 and OAR 860-027-0300, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), files herewith an Application to use deferred accounting for costs associated with its Horizon 1 Project.

A notice concerning this Application will be sent to all parties that participated in the Company's most recent general rate case, UG 388. A copy of the notice and the certificate of service are attached to the application.

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

eFiling
Rates & Regulatory Affairs
NW Natural
250 SW Taylor Street
Portland, Oregon 97204
Telecopier: (503) 220.2579
Telephone: (503) 610.7330
eFiling@nwnatural.com

If you have any questions, please contact me.

Sincerely,

/s/ Kyle Walker, CPA

Kyle Walker, CPA
Rates/Regulatory Manager

Enclosures

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM _____

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba, NW NATURAL

For Authorization to Defer Certain
Start-Up Costs Associated with
Horizon 1 Pursuant to ORS
757.259

**APPLICATION FOR
DEFERRED ACCOUNTING**

1 Northwest Natural Gas Company, d/b/a NW Natural (“NW Natural” or the
2 “Company”), hereby requests authorization to defer for later ratemaking treatment
3 operations and maintenance (“O&M”) start-up costs associated with developing
4 and implementing the first phase of a major information technology and services
5 (“IT&S”) project, known as Horizon. This application for deferred accounting
6 treatment (“Application”) is made pursuant to ORS 757.259(2)(e) and OAR 860-
7 027-0300, for the 12-month period beginning November 30, 2020 through
8 November 29, 2021.¹ NW Natural respectfully requests that the Commission act
9 on this Application by April 30, 2021, to facilitate the planning and implementation
10 phase of this project as described more fully below.

11 NW Natural is a public utility providing retail natural gas service in the State
12 of Oregon, and is subject to the jurisdiction of the Commission regarding rates,

¹ As detailed below, the first phase of Horizon is a multi-year program. However, consistent with the requirements of ORS 757.259(4), this application is limited to the O&M expense incurred during the first 12 months. If approved, NW Natural intends to seek a renewal of deferral authority until Horizon 1 is complete, thereby reflecting all of the anticipated O&M start-up costs described below.

1 service, and accounting practices. NW Natural also provides retail natural gas
2 service in the State of Washington.

3 Communications regarding this Application should be addressed to:

4 NW Natural
5 e-Filing for Rates & Regulatory Affairs
6 250 SW Taylor Street
7 Portland, Oregon 97204-3038
8 Telephone: (503) 610-7330
9 Facsimile: (503) 220-2579
10 Email: eFiling@nwnatural.com;

11
12 Eric Nelsen
13 Senior Regulatory Attorney (OSB #192566)
14 250 SW Taylor Street
15 Portland, Oregon 97204-3038
16 Phone: (503) 610-7618
17 Email: Eric.Nelsen@nwnatural.com;

18
19 and

20
21 Kyle Walker, CPA
22 Manager, Rates & Regulatory Affairs
23 250 SW Taylor Street
24 Portland, Oregon 97204-3038
25 Phone: (503) 610-7051
26 Email: Kyle.Walker@nwnatural.com
27

28 I. BACKGROUND

29 Horizon is a seven-year, two-phase IT&S initiative that will provide critically
30 needed upgrades to NW Natural's outdated technology architecture. Horizon was
31 recently previewed in the Company's 2019 general rate case, docket UG 388,
32 though NW Natural did not seek recovery of Horizon-related start-up costs in that
33 case.² In light of the significance of this program and its associated costs,

² *In the Matter of NW Natural's Request for a Gen. Rate Revision*, Docket UG 388, Direct Testimony of Jim Downing (NW Natural/600, Downing/6-13) (Dec. 30, 2019). Note, NW Natural did seek cost recovery of a new full-time equivalent position involved in Horizon implementation.

1 NW Natural offers the following additional detail and context to explain the reasons
2 for this initiative.

3 Each of the program’s two phases (“Horizon 1” and “Horizon 2”) includes a
4 significant keystone project to upgrade a major piece of software, as well as
5 various related and supporting software projects and upgrades (described in more
6 detail below). NW Natural is now moving forward with developing and
7 implementing the first phase—Horizon 1—which is expected to be placed in
8 service by October 2022.

9 Much of NW Natural’s foundational software architecture is at or nearing the
10 end of its useful life. Horizon seeks to address two central pillars of this
11 architecture, as well as a range of integrated and related platform upgrades.
12 Horizon has been broken into two phases to reflect the keystone upgrades central
13 to each phase.

- 14 • Horizon 1’s keystone project involves upgrading the current outdated
15 enterprise resource planning (“ERP”) platform. An ERP platform manages
16 the Company’s key business functions, such as accounting, operations,
17 human resources, asset management, and field management.
- 18 • Horizon 2’s central project involves upgrading and replacing NW Natural’s
19 21-year-old Customer Information Systems (“CIS”) platform. CIS is the
20 integrated framework that manages essential customer-facing functions,
21 such as billing and customer field services.

22 Together, NW Natural’s ERP and CIS provide the twin frameworks for
23 managing and integrating the Company’s essential business and customer-facing

1 functions, making these two platforms foundational pillars of how NW Natural is
2 able to effectively and efficiently serve customers. Crucially, the CIS is housed “on
3 top” of the ERP platform—meaning that any upgrade to the ERP must occur first,
4 in order to avoid extensive customization and duplication of work (and, by
5 extension, far greater overall expense).

6 Once implemented, Horizon 1 will provide important and extensive
7 improvements to the Company’s analytical capability, operational efficiency,
8 safety, and risk management capabilities. Moreover, the new ERP platform will be
9 able to replace a number of existing independent software programs—helping to
10 consolidate and streamline the Company’s IT&S portfolio.

11 **II. APPLICATION**

12 ORS 757.259 empowers the Commission to authorize the deferral of
13 expenses or revenues of a public utility for later inclusion in rates. The Commission
14 has established rules implementing this statute in OAR 860-027-0300, including
15 specific requirements for deferred accounting applications—each of which is
16 addressed in turn, below.

17 **A. Description of the Expenses to be Deferred – OAR 860-027-** 18 **0300(3)(a).**

19 NW Natural’s planning for the Horizon 1 project launch has identified
20 several necessary start-up workstreams that Company cannot capitalize as part of
21 the overall project. As a result, NW Natural seeks to defer the incremental start-up
22 O&M expenses associated with Horizon 1, which are expected to entail

1 approximately \$8.4 million in incremental O&M costs on a system-wide basis,³ as
2 follows:

- 3 • Approximately \$2.9 million involved in implementing 31 different
4 prerequisite projects, ranging from data cataloguing to developing
5 new asset management policies to establishing a series of new
6 security protocols. These prerequisite projects will ensure
7 NW Natural has the necessary technical processes and policies in
8 place to support the new ERP upgrade.
- 9 • Approximately \$1.9 million to complete the data conversion work
10 necessary to transition to the new SAP platform. Moving from one
11 platform to another involves a tremendous quantity of data
12 conversion as the entirety of the Company's existing data and
13 information must be transitioned to operate on the new platform.
- 14 • Approximately \$323 thousand to backfill employees. In order to
15 ensure the success of the project, certain NW Natural employees are
16 tasked to dedicate themselves full-time to the implementation of
17 Horizon 1. In order to allow for contractors to fill in for these
18 employees during the Horizon 1 project development, a 1-month
19 overlap period is anticipated to ensure continuity. This 1-month
20 overlap entails approximately \$323 thousand in anticipated
21 incremental expense.

³ This amount translates to approximately \$7.6 million on an Oregon-allocated basis.

- 1 • Approximately \$2.8 million to undertake a rigorous change
2 management process, including employee training. Change
3 management is a crucial part of a major IT&S project's success
4 because a foundational platform shift like the Horizon 1 ERP upgrade
5 involves not merely new software, but new job responsibilities and
6 new ways of working. The change management process will provide
7 a deliberate, structured approach to transition individuals, teams,
8 and organizations at all levels of the Company to the new ERP
9 platform. A lack of adequate change management processes is a
10 common source of ERP upgrade failure, because the upgrade will
11 affect employees across the organization who must understand and
12 embrace the capabilities and efficiencies of the new IT&S
13 environment.
- 14 • Approximately \$500 thousand is included in the budget as a
15 reasonable contingency estimate, reflecting the uncertainties still
16 inherent in the development process.

17 The above figures reflect NW Natural's best understanding of the
18 anticipated costs, and will be refined further in the upcoming procurement process
19 for Horizon 1. To be clear, NW Natural is not seeking a prudence determination of
20 these costs in this application. Rather, if deferred accounting is approved, NW
21 Natural will seek a prudence determination of these costs in a future rate case that
22 reviews the prudence of the entirety of the Horizon 1 project.

1 **B. Reasons Deferred Accounting is Requested – OAR 860-027-**
2 **0300(3)(b).**

3 ORS 757.259 is a “statutorily authorized exception to the general prohibition
4 against retroactive ratemaking” that allows a “means to address utility expenses or
5 revenues outside of the utility’s general rate case proceeding.”⁴ As specifically
6 relevant to this Application, ORS 757.259(2)(e) grants the Commission discretion
7 to authorize a deferral of “[i]dentifiable utility expenses or revenues, the recovery
8 or refund of which the commission finds should be deferred in order to minimize
9 the frequency of rate changes . . . or to match appropriately the costs borne by and
10 benefits received by ratepayers.” The Commission applies “a flexible, fact-specific
11 approach” to determining whether deferred accounting meets either prong of this
12 two-part test.⁵

13 Here, deferred accounting treatment is appropriate because it will both
14 minimize the frequency of rate changes and match appropriately the costs borne
15 by and benefits received by ratepayers. Without deferred accounting treatment,
16 NW Natural would face the possibility of incurring approximately \$7.6 million in
17 prudent and necessary Oregon-allocated expenses with no possibility of cost
18 recovery. Moreover, deferring the start-up costs for Horizon 1 for recovery after
19 Horizon 1 enters service will also align the project’s costs and benefits, consistent
20 with ORS 757.259(2)(e)’s matching principle. Thus, NW Natural’s application for
21 deferred accounting meets the necessary statutory criteria for deferral at the
22 Commission’s discretion.

⁴ *In re Pub. Util. Comm’n of Or. Staff Request to Open Investigation Related to Deferred Accounting*, Docket UM 1147, Order No. 05-1070 at 2 (Oct. 5, 2005).

⁵ Order No. 05-1070 at 5.

1 In determining whether to exercise its discretion and approve a deferred
2 accounting application, this Commission considers (1) whether the expense was
3 foreseeable and therefore could have been modeled in rates; and (2) whether the
4 expense is “significant[t].”⁶ Here, Horizon 1 was foreseen—and, indeed,
5 extensively described—in NW Natural’s last general rate case, but was
6 appropriately *not* included in base rates. In that case, the Company explained
7 implementation costs for the Horizon program “do not represent ongoing, annual
8 expense that will be recovered year after year.”⁷ In addition, NW Natural made
9 clear that it anticipated seeking deferred accounting treatment for the significant
10 one-time O&M expenses associated with developing and implementing Horizon.

11 Moreover, the O&M expense associated with implementing Horizon 1 are
12 significant, meaning that the inability to recover these costs would seriously
13 undermine the Company’s ability to earn near its authorized rate of return (“ROR”).
14 Absent a regulatory deferral, NW Natural would be required to internalize the
15 entirety of these costs. Such an outcome would unjustly penalize NW Natural for
16 pursuing crucial infrastructure upgrades necessary to provide safe and reliable
17 customer service.

18 NW Natural’s proposed deferred accounting treatment in this case is
19 consistent with Commission precedent for recovery of the significant one-time
20 O&M costs associated with implementing major IT&S infrastructure projects. For
21 instance, the Commission recently approved deferred accounting treatment

⁶ Order No. 05-1070 at 7 (stating that the utility seeking deferred accounting treatment “bears the burden of identifying the event [triggering the application] and showing its significance”).

⁷ Docket UG 388, NW Natural/600, Downing/14.

1 associated with the incremental O&M costs for Portland General Electric
2 Company's ("PGE") Customer Engagement Transformation ("CET") project, as
3 part of that company's 2012 rate case, docket UE 262.⁸ In that case, PGE
4 projected that it would incur \$22-25 million in O&M expense by the estimated in-
5 service year of 2018.⁹ Rather than include these one-time start-up costs in base
6 rates, the parties and the Commission agreed to establish a separate regulatory
7 asset to track these O&M costs for subsequent amortization and cost recovery.¹⁰
8 The accrued O&M costs were later included in rates in PGE's 2017 rate case,
9 docket UE 319.

10 **C. Accounting Treatment of Expenses With and Without Deferred**
11 **Accounting – OAR 860-027-0300(3)(c).**

12 Beginning on November 30, 2020, and ending twelve months from this date,
13 NW Natural proposes to account for the expenses incurred as a result of Horizon
14 1's O&M implementation costs on the Company's balance sheet, to later be
15 included in customer rates. In the absence of approval of deferred accounting,
16 NW Natural would record costs associated with the implementation of Horizon 1 in
17 FERC 921 expense accounts. NW Natural proposes to track and defer these costs
18 for review in a subsequent rate case.¹¹ These amounts would not, under FERC

⁸ Order No. 13-459 at 5.

⁹ Order No. 13-459 at 5.

¹⁰ Order No. 13-459 at 5.

¹¹ Pursuant to Commission Order No. 08-263, NW Natural will apply an interest rate based in the most recently authorized ROR to this account. See Docket UM 1147, Order No. 08-263 at 1 (noting that, "[h]istorically, a utility's deferred accounts have earned interest based on that utility's authorized rate of return (AROR)," before establishing a modified interest rate for deferred accounts during the amortization period).

1 accounting standards update (ASU) 2018-15 and FERC order,¹² be subject to
2 capitalization.

3 **D. Estimation of the Amounts Subject to Deferral – OAR 860-027-**
4 **0300(3)(d).**

5 As described above, NW Natural anticipates incurring approximately
6 \$8.4 million in Horizon 1 implementation costs by October 2022 on a system-wide
7 basis, or approximately \$7.6 million on an Oregon-allocated basis.

8 **E. Notice of the Application for Deferred Accounting – OAR 860-027-**
9 **0300(3)(e).**

10 OAR 800-027-0300(3)(e) requires NW Natural to provide a copy of the
11 notice of application for deferred accounting and list those persons served with the
12 notice. Notice must be served on all persons who were parties in the Company's
13 last general rate case.¹³

14 Here, a notice of this Application has been served to all parties who
15 participated in the Company's last recent general rate case, docket UG 388. A
16 copy of this notice is attached to this Application.

17 **III. CONCLUSION**

18 NW Natural respectfully requests that the Commission issue an order
19 authorizing the Company to defer the amounts described in this Application
20 associated with the implementation costs of Horizon 1, beginning on November
21 30, 2020. NW Natural further requests that action be taken on this Application by
22 April 30, 2021.

¹² FERC order in docket No. AI20-1-000, dated December 20, 2019.

¹³ OAR 860-027-0030(6).

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Dated this 30th day of November, 2020.

Respectfully Submitted,

NW NATURAL

/s/ Kyle Walker, CPA
Kyle Walker, CPA
Rates/Regulatory Manager

/s/ Zachary D. Kravitz
Zachary D. Kravitz
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UM_____

**NOTICE OF APPLICATION TO DEFER COSTS ASSOCIATED WITH
NW NATURAL'S HORIZON 1 PROJECT**

November 30, 2020

To All Parties That Participated in UG 388

Please be advised that on November 30, 2020 Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for AUTHORIZATION TO DEFER COSTS ASSOCIATED WITH HORIZON 1 PROJECT.

This is not a rate case. The purpose of this Notice is to inform parties that participated in the Company's most recent general rate case, UG 388, that a Deferral Application has been filed.

Parties who desire more information or who wish to obtain a copy of the filing, or notice of the time and place of any hearing, if scheduled, should contact the Company or the Commission as follows:

**NW Natural
Attn: Kyle Walker
250 SW Taylor Street
Portland, Oregon 97204
Telephone: (503) 610-7051**

**Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
PO Box 1088
Salem, Oregon 97308-1088
Telephone: (503) 378-6636**

Any person may submit to the Commission written comments on this matter within 25 days of the service of this notice. The granting of this Deferral Application will not authorize a change in rates, but will permit the Company to defer amounts in rates to a subsequent proceeding.

* * * * *



CERTIFICATE OF SERVICE

I hereby certify that on November 30, 2020, I have served by electronic mail the foregoing NOTICE OF APPLICATION TO DEFER COSTS ASSOCIATED WITH NW NATURAL'S HORIZON 1 PROJECT upon all parties of record for the Company's most recent general rate case, UG 388.

UG 388

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DATED November 30, 2020, Troutdale, OR.

/s/ Erica Lee-Pella
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