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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,

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

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.”<sup>1</sup> 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.

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<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup>

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.

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<sup>2</sup> 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.

<sup>3</sup> 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

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

Actuarial Report



# 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
<b>Key Assumptions</b>		
Discount rate	6.00%	5.49% ✓
Expected long-term rate of return	8.25%	8.25%
<b>Additional Information</b>		
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	3,388,174	5,264,152 ✓
Total	\$ 3,576,388	\$ 5,452,366
Net periodic pension cost/(income)	\$ 5,508,963	\$ 7,559,177 ✓
Settlement/curtailment cost/(income)	0	0
Total cost/(income)	\$ 5,508,963	\$ 7,559,177
<b>Key Assumptions</b>		
Discount rate	5.97%	5.46% ✓
Expected long-term rate of return	8.25%	8.25%
<b>Additional Information</b>		
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	5,466,617	7,399,358
Total	\$ 5,508,756	\$ 7,441,497
Net Periodic Pension Cost/(Income)	\$ 8,736,078	\$ 10,252,526
Settlement/Curtailment Cost/(Income)	0	0
Total Cost/(Income)	\$ 8,736,078	\$ 10,252,526
<b>Key Assumptions</b>		
Discount Rate	5.49%	4.52%
Expected Long-Term Rate of Return	8.25%	8.00%
<b>Additional Information</b>		
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
<b>Key Assumptions</b>		
Discount Rate	5.46%	4.50%
Expected Long-Term Rate of Return	8.25%	8.00%
<b>Additional Information</b>		
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	14,481,503	16,743,907
Total	\$ 14,711,856	\$ 16,974,260
Net Periodic Pension Cost/(Income)	\$ 19,143,533	\$ 21,514,241
Settlement/Curtailment Cost/(Income)	0	0
Total Cost/(Income)	\$ 19,143,533	\$ 21,514,241
<b>Key Assumptions</b>		
Discount Rate	4.50%/4.52%	3.87%
Expected Long-Term Rate of Return	8.00%	7.50%
<b>Additional Information</b>		
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

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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
<b>Key Assumptions</b>		
Discount Rate	3.87%	4.75%
Expected Long-Term Rate of Return	7.50%	7.50%
<b>Additional Information</b>		
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*

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Northwest Natural Gas Company  
Proprietary and Confidential

## 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
<b>Key Assumptions</b>		
Discount Rate	4.75%	3.88%
Expected Long-Term Rate of Return	7.50%	7.50%
<b>Additional Information</b>		
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



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## 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)	0	0
Total Cost/(Income)	\$ 20,772,490	\$ 17,271,567
<b>Key Assumptions</b>		
Discount Rate	3.88%	4.24%
Expected Long-Term Rate of Return	7.50%	7.50%
<b>Additional Information</b>		
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
<b>Key Assumptions</b>		
Discount Rate	4.24%	4.03%
Expected Long-Term Rate of Return	7.50%	7.50%
<b>Additional Information</b>		
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

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### 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	18,761,295
Net periodic benefit cost	\$ 20,788,764
Additional expense	0
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	10,764,403
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