## **ONITA KING**

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June 26, 2018

NWN OPUC Advice No. 18-03 / ADV

## **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:** Schedule H: "Large Volume Non-Residential High Pressure Gas Service (HPGS) Rider" Revisions to Cost Recovery Factors

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), files herewith the following revisions to its Tariff P.U.C. Or. 25<sup>1</sup>, stated to become effective with service on and after **August 1, 2018**:

Second Revision of Sheet H-5, Schedule H, "Large Volume Non-Residential High Pressure Gas Service (HPGS) Rider (continued)."

This filing is made in accordance with OAR 860-022-0015 and OAR 860-022-0025.

The purpose of this filing is to revise the cost recovery factors set forth in Schedule H to reflect the effect of the federal tax reform act, originally known as the "Tax Cuts and Jobs Act" ("tax reform"), enacted on December 22, 2017 and effective on January 1, 2018.

A worksheet showing the derivation of the revised cost recovery factors is included with this filing.

The Company respectfully requests that the tariff sheet filed herein be approved to become effective with service on and after August 1, 2018 and if deemed necessary by the Commission that a hearing be scheduled, in accordance with ORS 757.210.

In accordance with ORS 757.205, copies of this letter and the filing made herewith are available in the Company's main office in Portland, Oregon and on its website at <a href="https://www.nwnatural.com">www.nwnatural.com</a>.

<sup>&</sup>lt;sup>1</sup>Tariff P.U.C. Or. 25 was filed pursuant to ORS 757.205 and OAR 860-022-0005 and originated November 1, 2012 with Docket UG 221; OPUC Order No. 12-408 as supplemented by Order No. 12-437.

Public Utility Commission of Oregon NWN OPUC Advice No. 18-03 June 26, 2018, Page 2

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

eFiling NW Natural Rates & Regulatory Affairs 220 NW Second Avenue Portland, Oregon 97209 Telecopier: (503) 721-2516 Telephone: (503) 226-4211, ext. 3589 eFiling@nwnatural.com

Sincerely,

**NW NATURAL** 

/s/ Onita King

Onita King Rates & Regulatory

Attachments

## RATE SCHEDULE H LARGE VOLUME NON-RESIDENTIAL HIGH PRESSURE GAS SERVICE (HPGS) RIDER

(continued)

## **Monthly Billing Rate (continued)**

Cost Recovery Factors Primary 10-Year Term Effective September 1, 2013								
Year	No Bonus Depreciation	With Bonus Depreciation						
Year 1	21.6%	21.0%						
Year 2	20.1%	19.2%						
Year 3	18.7%	18.0%						
Year 4	17.3%	16.8%						
Year 5	16.1%	15.8%						
Year 6	15.0%	14.7%						
Year 7	13.8%	13.7%						
Year 8	12.7%	12.7%						
Year 9	11.7%	11.7%						
Year 10	10.8%	10.8%						

Scheduled Maintenance Charge includes the costs associated with providing Scheduled Maintenance on HPGS Facilities as well as an annual charge of \$10,087 per Customer for administrative services, which includes but is not limited to costs for managing the program, marketing, applying administrative and general overhead allocations, performing Customer credit evaluations, drafting the Customer agreements and site licenses, billing, warehousing and managing inventory of spare parts, monitoring, and dispatching. Scheduled Maintenance costs are initially based on expected labor and material costs known at the time the HPGS Agreement is executed. The labor component recovered through this charge includes the costs for administration The Scheduled Maintenance Charge may be adjusted annually on the anniversary date of the execution of the HPGS Agreement to reflect any adjustments for differences between expected costs and actual costs, and to reflect any cost changes expected for the next 12-month period.

In addition to the Monthly Facility Charge and the Scheduled Maintenance Charge, the Company will bill and the Customer will be responsible to pay all actual costs associated with the Company's provision of Unscheduled Maintenance and Back-Up Services.

<u>Unscheduled Maintenance</u> will be billed as costs are incurred at actual costs for labor and materials plus overhead expenses.

(continue to Sheet H-6)

Issued June 26, 2018 NWN OPUC Advice No. 18-03 Effective with service on and after August 1, 2018

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NORTHWEST NATURAL GAS

OPUC Advice 18-03

3 June 26, 2018

Schedule H Cost Recovery Factors

Determination of Cost of Service for Ratemaking										
CNG Fueling	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
1 Depreciation	106,155	106,155	106,155	106,155	106,155	106,155	106,155	106,155	106,155	106,15
2 Property Taxes	14,204	12,612	11,019	9,427	7,835	6,242	4,650	3,058	1,465	
3 Income Tax - State	4,372	3,526	3,002	2,519	2,064	1,621	1,179	751	353	(72
4 Income Tax - Federal	11,163	9,002	7,665	6,431	5,270	4,140	3,009	1,917	900	(183
5 Debt Return	26,773	21,589	18,384	15,425	12,640	9,929	7,217	4,597	2,159	(439
6 Common Equity Return	41,995	33,864	28,837	24,195	19,827	15,574	11,321	7,211	3,387	(689
7 Subtotal Cost of Service	204,662	186,747	175,063	164,152	153,792	143,661	133,531	123,688	114,419	104,773
8 Revenue Sensitive Items	5,355	4,887	4,581	4,295	4,024	3,759	3,494	3,237	2,994	2,742
9 Total Cost of Service	210,018	191,634	179,644	168,447	157,816	147,421	137,025	126,924	117,414	107,51
Capital Expenditures - Net of ITC and BETC	1,000,000	-	-	_	-	-	_	_	-	-
Cumulative	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Rate Base - net of deprec. & def. tax	884,098	712,919	607,090	509,361	417,412	327,872	238,333	151,804	71,304	(14,495
Capital Recovery Factor	21.0%	19.2%	18.0%	16.8%	15.8%	14.7%	13.7%	12.7%	11.7%	10.89

	No Bonus	With Bonus
Year 1	21.6%	21.0%
Year 2	20.1%	19.2%
Year 3	18.7%	18.0%
Year 4	17.3%	16.8%
Year 5	16.1%	15.8%
Year 6	15.0%	14.7%
Year 7	13.8%	13.7%
Year 8	12.7%	12.7%
Year 9	11.7%	11.7%
Year 10	10.8%	10.8%

Income Taxes												
			F7 F00	40.004	20.505	20.445	07.400	04.005	45 500	0.070	4.040	(0.40)
Gross up of E			57,530	46,391	39,505	33,145	27,162	21,335	15,509	9,878	4,640	(943)
Less: State ta			4,372	3,526	3,002	2,519	2,064	1,621	1,179	751	353	(72)
Federal Taxab			53,158	42,865	36,502	30,626	25,098	19,714	14,330	9,127	4,287	(872)
Less: Federal	Tax		11,163	9,002	7,665	6,431	5,270	4,140	3,009	1,917	900	(183)
Return			41,995	33,864	28,837	24,195	19,827	15,574	11,321	7,211	3,387	(689)
Deferred Taxes												
Book Deprecia	ation		106,155	106,155	106,155	106,155	106,155	106,155	106,155	106,155	106,155	106,155
Tax Depreciat	ion		571,450	122,450	87,450	62,450	44,650	44,600	44,650	22,300	-	61,550
Tax Effect of E	Book-Tax Difference		125,648	4,400	(5,051)	(11,802)	(16,609)	(16,622)	(16,609)	(22,644)	(28,666)	(12,045)
MACRS Depre	ciation - 7	Normal - 7	14.29%	24.49%	17.49%	12.49%	8.93%	8.92%	8.93%	4.46%	0.00%	0.00%
	ciation - 7 - Bonus	Bonus - 7	57.15%	12.25%	8.75%	6.25%	4.47%	4.46%	4.47%	2.23%	0.00%	0.00%
Property Tax I		Bondo ,	946,923	840,768	734,613	628,458	522,303	416,148	309.993	203,838	97,683	0.00.0
Tax Calculatio		ok	0.10,020	0.10,7.00	701,010	020,100	022,000	110,110	000,000	200,000	07,000	ŭ
MACRS by Capex Vin	tane	-										
2017	Bonus - 7		57.15%	12.25%	8.75%	6.25%	4.47%	4.46%	4.47%	2.23%	0.00%	0.00%
2018	Bonus - 7			57.15%	12.25%	8.75%	6.25%	4.47%	4.46%	4.47%	2.23%	0.00%
2019	Bonus - 7				57.15%	12.25%	8.75%	6.25%	4.47%	4.46%	4.47%	2.23%
2020	Bonus - 7					57.15%	12.25%	8.75%	6.25%	4.47%	4.46%	4.47%
2021	Bonus - 7						57.15%	12.25%	8.75%	6.25%	4.47%	4.46%
2022	Bonus - 7							57.15%	12.25%	8.75%	6.25%	4.47%
2023	Bonus - 7								57.15%	12.25%	8.75%	6.25%
2024	Bonus - 7									57.15%	12.25%	8.75%
2017		1,000,000	571.450	122,450	87,450	62.450	44,650	44,600	44,650	22,300	-	_
2018		-	-	-	-	-	-	-	-	-	-	-
2019		-	-	-	-	_	_	_	-	-	-	-
2020		-	-	-	-	_	_	_	-	-	-	-
2021		-	-	-	-	_	_	_	-	-	-	-
2022		-	-	-	-	_	_	_	-	-	-	-
2023		-	-	-	-	_	_	_	-	-	-	-
2024		-	-	-	-	-	-	-	-	-	-	-
cost of remov	al	=	-		-	-	_	_	_	-	-	61,550

Cost of Capital (UG-221 authorized)	% of Capital	Cost	Weighted Cost
Debt	50.00%	6.06%	3.03%
Common Equity	50.00%	9.50%	4.75%
Total Weighted	100.00%		7.78%
State Tax Rate			7.60%
Federal Tax Rate			21.00%
Combined Tax Rate			27.00%
Revenue Sensitive Rate (franchise & comm fee)			2.55%
Depreciation Rate Book			10.0%
Depreciation Rate Ratemaking			10.0%
Property Tax Rate (Oregon average)			1.5%
Incremental O&M			-
Inflation Factor			1.5%
Investment Cost			1,000,000

Recovered		Total	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Marketing, Ac	lmin	-	-	-	•	-	-	-				
CNG	Cost / Station	1,000,000										
	Stations		1					-				
	Project Capital	1,000,000	1,000,000	-	-	-	-	-	-	-		
	ITC		-	-	-	-	-	-	-	-		
	BETC	-	-	-	-	-	-	-	-	-		
	Net Capital	1,000,000	1,000,000	-	-	-	-	-	-	-		
	MACRS		Bonus - 7									

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
MACRS Depreciation - 7	14.3%	24.5%	17.5%	12.5%	8.9%	8.9%	8.9%	4.5%								
MACRS Depreciation - 7 - Bonus	57.1%	12.2%	8.7%	6.2%	4.5%	4.5%	4.5%	2.2%								
MACRS Depreciation - 15	5.0%	9.5%	8.6%	7.7%	6.9%	6.2%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	3.0%
MACRS Depreciation - 15 - Bonus	52.5%	4.8%	4.3%	3.9%	3.5%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	1.5%
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
2012 Implementation Sched (42)	2	4	7	9	8	4	4	4								
2013 Implementation School (27)	1	3	5	8	10											

Monetization of Credit using Passthru Partner

0.285

Present Value Estimat	50,00
Inflation Factor	2.:
Year 1	50.00
Year 2	51.05
Year 3	52,12
Year 4	53,21
Year 5	54,33
Year 6	55,47
Year 7	56,64
Year 8	57,83
Year 9	59,04
Year 10	60,28
Year 11	61.59