ORDER NO. 18 419

ENTERED OCT 26 2018

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 344

In the Matter of NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL, Request for a General Rate Revision.	ORDER

DISPOSITION: FIRST STIPULATION ADOPTED; SECOND STIPULATION REJECTED IN PART; GAS STORAGE ISSUE RESOLVED

I. SUMMARY

In this order, we address Northwest Natural Gas Company's (NW Natural) request for an 8.3 percent increase in rates to produce $40.38 million in additional revenues. We adopt the first all-party partial settlement of issues related to the request, but reject in part the second partial stipulation with respect to the regulatory treatment of the impact of the passage of the Tax Cuts and Jobs Act (TCJA) on NW Natural's excess deferred income tax (EDIT) account and proposed amortization of the existing pension balancing account. We also resolve issues relating to the allocation of costs and benefits associated with the revenues derived from NW Natural's gas storage and optimization activities, and direct the parties to engage in further proceedings to address the remaining issues.

As a result of these decisions, we authorize an overall initial rate increase of 3.72 percent or approximately $23.4 million in revenues. Combined with the earlier purchase gas adjustment rate decrease we approved in Order No. 18-386, customer bills will decrease on average by 2.1 percent for residential customers, 3.4 percent for commercial customers, and 6.2 percent for industrial customers effective November 1, 2018.[1]

II. BACKGROUND AND PROCEDURAL HISTORY

NW Natural is a public utility providing gas service within the meaning of ORS 757.005, and is subject to our jurisdiction with respect to the prices and terms of service for its Oregon retail customers.

[1] A revenue requirement summary reflecting our decisions in this order is attached as Appendix C.

On December 29, 2017, NW Natural filed revised tariff schedules to go into effect November 1, 2018 which would increase overall rates by 8.3 percent to produce additional revenues of $52.4 million, or $40.38 million after adjustments for decoupling are considered, representing an incremental increase of approximately 6.3 percent on customers' future billing rates. On March 20, 2018, the company filed supplemental direct testimony. To develop its proposed rates, the company used a twelve month period ending October 31, 2019 as the test year and a twelve month period ending December 31, 2017, as the historical base year.

During the course of the proceedings, Northwest Industrial Gas Users (now named Alliance of Western Energy Consumers (AWEC) intervened as a party. The Oregon Citizens' Utility Board (CUB) intervened as a matter of right under ORS 774.180.

The parties and the Commission staff (Staff) conducted discovery, filed testimony, and engaged in settlement discussions. A majority of the issues, including adjustments to the revenue requirement, rate spread and rate design, were ultimately resolved by the parties through the execution of a stipulation filed on August 6, 2018. This first stipulation was supported by joint testimony filed September 14, 2018, and is attached as Appendix A.

The first all-party stipulation did not resolve three disputed issues: (1) the appropriate means to recognize the impact of the passage of the Tax Cuts and Jobs Act (TCJA) on NW Natural's excess deferred income tax (EDIT) account; (2) addressing the amortization of the pension balancing account; and (3) the allocation of the revenues derived from NW Natural's gas storage and optimization activities. Following additional settlement discussions, NW Natural, CUB and Staff filed a second stipulation on September 7, 2018, settling the first two issues supported by joint testimony. The second stipulation is attached as Appendix B. AWEC opposed the second stipulation. The parties reached no agreement with respect to third disputed issue, the allocation of the revenues derived from NW Natural's gas storage and optimization activities.

III. FIRST STIPULATION

We outline the nature of the first stipulation, summarize each initially disputed issue that was the subject of the negotiated settlement in that stipulation, and provide our decision.

A. Adjustments to Revenue Requirement

In its supplemental filing, NW Natural reduced its initial requested increase in its revenue requirement to reflect the passage of the TCJA on the test year and our approval of the depreciation study in docket UM 1808.[2] The impact of these revisions was to reduce the requested revenue requirement increase to $37.8 million, or $25.7 million after consideration for decoupling.

In the stipulation, the parties further agree to adjustments that reduce the revenue requirement increase by $21.8 million, from the $37.8 million to $16.0 million. The parties agree that NW Natural will file rate schedules in compliance with the proposed adjustments and the resolution of the remaining outstanding issues, effective November 1, 2018. The proposed reductions reflect adjustments summarized in the following table:

ISSUE NO.	ADJUSTMENT	REVENUE REQUIREMENT EFFECT
1	Return on Equity at 9.400%	($5,127,000)
2	Miscellaneous Revenues	($70,000)
3	Promotions & Concessions, Advertising, Miscellaneous Administrative and General, and Affiliated Interests	($3,401,000)
4	Director and Officer Insurance	($196,000)
5	Fee-Free Bankcard	($185,000)
6	Meals, Entertainment, Gifts and Travel	($936,000)
7	Wages, Salaries, Incentives and Medical Expense	($6,171,000)
8	Gas Storage	($16,000)
9	Plant Maintenance	($41,000)
10	Distribution	($206,000)
11	Customer Accounts	($103,000)
12	Memberships, Dues and Donations	($191,000)
13	Stock Issuance Costs	($1,233,000)
14	Property Tax	($152,000)
15	Oregon Department of Energy Fees	($20,000)
16	Research and Development Fees	($22,000)
17	Plant Test-Year Capital Expenditures	($3,719,000)
18	Customer Deposits	($27,000)
	Total Adjustments	**($21,816,000)**
	Incremental Revenue Requirement	**$16,000,000**

[2] *See In re Northwest Natural Gas Company's Update Depreciation Study*, Docket No. UM 1808, Order No. 18-007 (Jan 5, 2018).

1. Issue 1 and Issue 13: Return on Equity, Stock Issuance Costs, and Cost of Capital

In its initial filing, NW Natural proposed a rate of return (ROR) of 7.62 percent, which was based on capital structure with a 50/50 ratio between equity and long term debt, a proposed Return on Equity (ROE) of 10.0 percent and a long term debt cost of 5.233 percent.

Staff provided substantial independent analysis of NW Natural's proposal regarding cost of capital, and supported the company's proposed capital structure and cost of long-term debt, but proposed an ROE of 9.0 percent resulting in an adjusted ROR of 7.12 percent. Staff provided testimony regarding its ROE and stock issuance cost adjustments, arguing that its proposed reduction of the company's ROE to 9.0 percent was within a reasonable range of 8.7 to 9.3 percent. Staff also proposed to exclude stock issuance costs as a separate revenue requirement item.

After settlement discussions, the stipulating parties agree to an ROE of 9.4 percent, a 5.233 percent cost of long-term debt with an overall ROR of 7.317 percent. The parties further agree that the company would not recover stock issuance as a separate revenue requirement item. This compromise on these items results in a proposed reduction to revenue requirement of $6,360,000.[3]

2. Issue 2: Miscellaneous Revenues

NW Natural's initial filing included miscellaneous revenues calculated using a three-year average (October 2014 through September 2017); although if the amounts for a particular category were trending upward or downward, the most recent year was used as representative for the test year forecast. The company used the twelve months ending September 2017 as a proxy for the base year due to data availability when the Initial Filing was finalized.

Staff's original recommendation applied certain adjustments. However, in generally adopting Staff's recommendation in the stipulation, the parties agree that calculation errors necessitated changes to Staff's original recommendation. The adjustment ultimately results in a reduction to the revenue requirement of $70,000.[4]

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[3] Stipulating Parties/100, McVay, Gardner, Jenks, and Mullins/6-8.
[4] *Id.* at 8-9.

3. *Issue 3: Promotions & Concessions, Advertising, Miscellaneous Administrative & General, and Affiliated Interests*

The parties agreed to adjustments to these categories as a compromise between the company's initial filing and Staff's recommendations. Staff had proposed reductions in these categories totaling $14,754,000. CUB also provided recommendations with respect to these accounts.

After a discussion of the parties' respective arguments, the stipulating parties reached a compromise adjustment of $3,306,000 that reflects some of Staff's suggestions and correcting errors identified during discovery and testimony. The agreement results in a revenue requirement reduction of $3,401,000.

4. *Issue 4: Director and Officer Insurance*

NW Natural included its actual premium amounts for Oregon-allocated director and officer (D&O) insurance in its initial filing. Staff proposed a 50-50 sharing of this expense between ratepayers and shareholders. The stipulating parties agree to a reduction of $191,000 to expense to reflect the removal of 50 percent of the Oregon-allocated expense associated with D&O insurance, a compromise between the company's initial filing and Staff's proposal, resulting in a reduction to revenue requirement of $196,000.[5]

5. *Issue 5: Fee-Free Bankcard Costs*

In its initial filing, NW Natural included costs associated with increased adoption of its fee-free bankcard program that we approved in docket UG 221 (the company's last general rate proceeding). The company's forecast for the test year was based on historical trends and indicated that the company's view is that the adoption rate will continue to increase. Staff proposed adjustments to these costs totaling a $690,000 reduction in the revenue requirement, including a reduction to reflect Staff's estimation of savings related to adoption of the program and also a lower projected adoption rate for the test year. Although NW Natural did not agree with Staff's projection of the adoption rate or the method for calculating associated savings, the stipulating parties agree to a $185,000 reduction in the revenue requirement.

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[5] *Id.* at 14-15.

6. *Issue 6: Meals, Entertainment, Gifts, and Travel*

NW Natural's initial filing proposed to include its costs associated with employee meals, entertainment, gifts and travel, asserting that the costs were necessary for business purpose-related travel and to reward employee performance.[6] Staff proposed the following changes resulting in a $1,266,732 reduction to the revenue requirement:

- Removal of the costs associated with employee awards (i.e., employee gifts and entertainment) in their entirety;
- Removal of fifty percent of all meals expense regardless of category (i.e., regardless of whether the meals expense was for bargaining or non-bargaining unit employees); and
- Removal of between fifty and 100 percent of travel expenses based on Staff's analysis of the descriptions provided for each travel expense item

In the stipulation, the parties agree to a $936,000 reduction to the revenue requirement reflecting a compromise based on acknowledging non-meals expense erroneously included in the initial filing, the non-discretionary meals expenses related to employees under union contracts, the correction of an error in calculating mileage expense and a fifty percent sharing of employee awards costs between shareholders and customers.

7. *Issue 7: Salaries, Wages, Incentives, and Medical Benefits*

NW Natural projected its wages, salary, and medical benefit costs based on trend surveys performed by outside organizations and also its own analysis of company-specific considerations, including the requirements of the company's bargaining unit agreements for wages and salaries and the company's actual claims experience with respect to medical benefits. In its initial filing, NW Natural had sought a change to our policy regarding incentive pay, arguing that our policy was not in line with other regulatory commissions on this issue.[7]

Staff proposed adjustments to projected wages and salaries resulting from the use of the All-Urban consumer price index as the escalation factor. With respect to the company's proposal that incentive pay disallowance be revisited and a means of sharing the costs be utilized, Staff recommended modifications to the proposal. Specifically Staff proposed that all officer incentive pay would be disallowed and that non-officer incentive pay would be disallowed at fifty percent, if based on non-financial metrics or at seventy-five

[6] *Id.* at 16, citing NW Natural/1700, Moncayo/91-94.
[7] *Id.* at 18, citing NW Natural/700, Doolittle/11-12,14.

percent if based on financial metrics. Staff also recommended downward adjustments to projected medical benefit costs during the test year, based on Staff's analysis of insurance cost trends. The effect of Staff's proposals would be a $9,415,000 reduction to the revenue requirement.

The stipulating parties agree to an adjustment that took each of these recommendations into account, resulting in a proposed reduction to the revenue requirement of $6,171,000.

8. *Issue 8: Gas Storage Operations and Maintenance Expense*

In its initial filing, NW Natural included gas storage expense based on actual costs incurred during the Base Year in the Oregon-allocated amount of $5,377,449. Staff proposed to reduce these costs using a three-year historical average of costs. The stipulating parties agree to a reduction of $16,000 as a compromise as it reflects the rising costs actually being experienced by the company and contributes to the overall fair resolution of revenue requirement in this case.

9. *Issue 9: Plant Maintenance*

In its initial filing, NW Natural proposed plant maintenance costs based on actual costs during the Base Year in the amount of $2.1 million. Staff recommended a reduction of $113,000 to these costs based on its calculation of a three-year average. The stipulating parties reached a compromise that resulted in a reduction of $41,000 to the revenue requirement.

10. *Issue 10: Distribution O&M*

The total costs proposed by NW Natural in its initial filing were $13.09 million, based on actual costs incurred during the base year and reflected actual increasing costs, including higher contractual costs for locating services.[8] Staff proposed an adjustment decreasing NW Natural's revenue requirement by $2.1 million based on its use of a three-year average to calculate these costs.

The stipulating parties agreed to a reduction of $206,000 to revenue requirement as a compromise between the company's initial filing and Staff's recommended adjustments because it reflected the company's actual experience regarding rising costs, while acknowledging Staff's proposal to more closely align the test year distribution O&M to a three-year average.

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[8] *Id.* at 21, citing NW Natural/1700, Moncayo/82.

11. *Issue 11: Customer Accounts*

NW Natural proposed to include approximately $18.2 million in expense related to customer accounts calculated; the non-labor portion of this expense totaled $5.32 million for the test year. The company's proposal represented a 4.5 percent decrease from the base year expense. Staff proposed an adjustment of $356,517 to NW Natural's customer accounts costs in rate base, based on its use of a three-year average. The stipulating parties agree to a reduction to revenue requirement of $103,000.[9]

12. *Issue 12: Memberships, Dues and Donations*

The company's initial filing proposed to recover all expense associated with its dues and memberships based on NW Natural's actual 2017 expense, escalated for the test year. The total Oregon-allocated amount proposed by the company for the test year was $1,010,884.

Staff proposed several reductions to the costs in these categories, including a reduction of twenty-five percent to the costs associated with national and regional organizations, based on Staff's assertion that this represents a reasonable estimation of the costs associated with lobbying expenses. Staff's proposed adjustments resulted in a total proposed reduction of $451,525.

The stipulating parties agree that an adjustment to the proposed costs for fees associated with national and regional organizations was reasonable for purposes of reaching resolution of this case. The proposed adjustment resulted in a reduction to revenue requirement of $191,000.[10]

13. Issue 13: Stock Issuance Costs

As discussed above in Issue 1, the parties resolved disputes related to stock issuance cost adjustments as part of an integrated agreement on return on equity and costs of capital.

14. *Issue 14: Property Tax*

The company included property tax amounts for the test year that were calculated using the rate resulting from a one-third, two-third average of the 2016 and 2017 rates, respectively, derived by taking the assessed taxes divided by net utility plant at

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[9] *Id.* at 22.
[10] *Id.* at 23, citing NW Natural/1726, Moncayo/7 and Staff/900, Rossow/2-3.

December 31 of the year prior to each assessment. The rate was then applied to net plant at year end 2017 for the 2018 tax assessment and to year end 2018 for the 2019 tax assessment. Finally, the forecast assessments for the two years were then combined at a ratio of eight months of 2018 and four months of 2019 to arrive at an appropriate tax expense to include for the test year because the ratio is based on property tax assessments occurring on a July to June cycle. The total property tax amount derived using this method and proposed by the company for the test year was $22,381,734.[11]

Staff proposed an adjustment to the company's proposed property tax based on its use of a three-year average to calculate a tax rate, and also a disallowance of gross plant amounts. This adjustment resulted in a proposed reduction of $1,104,000.

Although the parties did not necessarily agree on the methodology for calculating the test year property tax expense, the stipulating parties agree to a settlement approach of half of the adjustment reflecting the use of the three-year average, resulting in a reduction to revenue requirement of $152,000. Other stipulated adjustments concerning gross plant reflected property tax effects as a component of those adjustments.

15. *Issue 15: Oregon Department of Energy Fees*

NW Natural proposed to include $818,485 in ODOE fees for the test year. This amount was calculated using a one-third/two-third average effective rate for the two-year period of 2015 and 2016, and applying the average effective rate to total operating revenues.[12] Staff recommended use of a three-year average to calculate the ODOE fees instead of the company's proposal resulted in a proposed reduction of $48,000. The stipulating parties did not agree on the proposed approach but settled on using a non-weighted two-year average effective rate that results in a reduction to revenue requirement of $20,000.

16. *Issue 16: Research and Development Fees*

NW Natural's initial filing included a research and development tax credit in its tax expense based on data from 2015 resulting in a $76,000 reduction of income tax for the test year. AWEC proposed a reduction to the revenue requirement in the amount of $75,398 based on the company's 2016 tax return and also to account for the impacts of the 2017 federal Tax Act.[13] The company disagreed with AWEC's calculation with respect to the use of the 2016 return, because NW Natural believed it was not indicative of the underlying expense and credit to be expected in the test year. In the stipulation,

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[11] *Id.* at 24, citing NW Natural/209, McVay/1.
[12] *Id.* at 25, citing NW Natural/200, McVay/17.
[13] *Id.* at 26, citing AWEC/200, Mullins/5.

however, NW Natural does agree to update the credit in recognition of the change in the corporate tax rate resulting from the 2017 federal tax rate, which resulted in a revenue requirement reduction of $22,000.[14]

17. *Issue 17: Plant Test-Year Capital Expenditures*

The company's initial filing included the costs associated with the following categories of capital projects: (a) all capital projects completed since the company's last rate case (docket UG 221) that will be used and useful as of the rate effective date in this case; and (b) all capital projects that will be completed during the test year. For projects completed since the company's last rate case, the company proposed to recover the total investment, less depreciation incurred since the date the project was completed. For capital projects that will be completed during the test year, the company used an average through the test year so that customers' rates will reflect those investments only to the extent that they are used and useful in providing utility service during the test year. The company proposed a total rate base related to capital projects of $1,586,290,000 and to include $111,273,923 in incremental capital costs for the test year related to capital projects.[15]

Staff proposed a reduction of $191,146,000 to rate base to reflect a recommendation to disallow investment related to certain projects that were projected to be completed in the six months leading up to the rate effective date of November 1, 2018, to remove most investment related to projects planned for completion during the test year (beginning November 1, 2018), to adjust the calculation for the land and building component of gross plant, and to adjust gross plant resulting in a reduction to construction overhead for the years 2013 through June 30, 2018. In addition, Staff specifically proposed to disallow certain costs associated with the company's Mid-Willamette Valley Feeder and Corvallis Loop Projects. The total net adjustment proposed by Staff for all capital projects would reduce the revenue requirement by $17.2 million.

AWEC also proposed to remove projects that were not in service by the November 1, 2018 rate effective date. Further, AWEC proposed adjustments to NW Natural's capital forecasting methodology.

The stipulating parties agree to reduce rate base by $33,730,000 to reflect removal of projects that will not go into service until after November 1, 2018, except that the stipulating parties agree to include a portion of those capital additions related to customer acquisitions. This results in a reduction to the revenue requirement of $5,389,000. The stipulating parties also include an addition of $13,516,000 to rate base in recognition of

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[14] *Id.*
[15] *Id.* at 27, citing NW Natural/1700, Moncayo/24.

the capital associated with new customers added during the test year. This adjustment results in an increase to the revenue requirement of $1,671,000. While AWEC and CUB do not agree that the adjustment for new customers should apply in other instances, they both accept this adjustment as compromise in the context of the overall settlement of the issues in this stipulation.

18. *Issue 18: Customer Deposits*

NW Natural proposed to include a reduction to rate base for customer deposits of $3,849,000[16] calculated using a one X factor regression model to estimate the trend for the test year using monthly historical balances form January 2014 through September 2017. Staff proposed an adjustment to the calculation of customer deposits based on its methodology of trending over the 2010-2017 period; Staff's adjustment would result in a reduction of $576,000 to rate base.[17]

The stipulating parties agree to use NW Natural's methodology but adjusted to update Staff's calculation with monthly values instead of the proposed year-end approach. This results in a reduction to rate base of $291,000 and a reduction to revenue requirement of $27,000.

B. Rate Spread

The stipulating parties agree to the rate spread as shown in Appendix B to the stipulation. Specifically, the stipulating parties agree that the final base rate increase approved in this matter will be applied using an "equal percent of margin" calculation. This calculation takes the margin revenue by rate schedule at current rates and divides that by NW Natural's total margin to derive a percentage rate. The percentage rate is then multiplied by the incremental revenue requirement ($16 million) to calculate the dollar increase apportioned to each rate schedule.

C. Miscellaneous Issues

1. Promotions and Concessions

In addressing the Revenue Requirement Issue 3, above, the parties did not agree on the categorization of certain advertising expenses that Staff determined were more appropriately categorized as promotions.[18] As part of the stipulation, NW Natural agrees

[16] *Id.* at 29, citing NW Natural/201, McVay/1.
[17] *Id.* at 30, citing Staff/100, Gardner/23.
[18] *Id.* at 32, citing Staff/400, Anderson/14.

to review and amend its categorization of these costs as necessary and appropriate to address concerns raised by Staff in this proceeding.

2. Capital Project Attestations

In conjunction with the resolution of Revenue Requirement Issue 17, Plant Test-Year Capital Expenditures, the company provided an attestation from a company officer on October 5, 2018 which identified three capital projects over $1,000,000 that were expected to be completed by the rate effective date, as of the initial filing, but are no longer on track for completion by October 31, 2018. The company stated that, under the terms of the second stipulation, it would remove such projects from rate base for purposes of calculating the rates pursuant to the stipulation.

3. Revenue Decoupling

NW Natural's initial filing included a proposal to modify the company's revenue decoupling mechanism. CUB expressed concerns about the legality of the company's proposal to include weather-related variations in its decoupling mechanism.[19] As part of the settlement negotiation process, the company has agreed to withdraw this proposal and retain its current decoupling mechanism with the following exception.

The stipulating parties have agree that it is appropriate to administer decoupling for NW Natural's commercial customer class on a rate schedule specific basis (Rate Schedules 3 and 31) instead of on the currently effective combined basis.

4. Capital Additions

During the course of the proceeding, Staff raised issues regarding how the NW Natural forecasts the test year capital additions costs. In addition to the compromise contained in the stipulation resulting in adjustment to the revenue requirement, the company has agreed to respond to additional discovery requests regarding its forecast for capital additions.

D. Commission Resolution

We find that the stipulation as a unified agreement represents a reasonable compromise for many reasons, including the following: (1) the stipulation results in a 2.55 percent increase to total revenues, or a 4.57 percent margin increase; (2) the stipulation represents a fair settlement of nearly all revenue requirement issues; (3) settlement of the issues

[19] *Id.* at 33, citing CUB/100, Jenks-Gehrke/22-32.

presented in the stipulation significantly reduces the scope of litigation in this proceeding; and (4) the terms of the stipulation provide certainty that the costs proposed in this case will be in service for the benefit of Oregon customers during the test year.

We acknowledge that the parties do not necessarily agree on the various methodologies used to support the various adjustments contained in the stipulation, and that the stipulation as a whole represents a reasonable compromise on these issues. Nonetheless, we find that the stipulation as a whole represents a reasonable resolution of the identified issues and contributes to an overall settlement in the public interest. We adopt the first stipulation in its entirety.

IV. THE SECOND STIPULATION

While all of the parties were able to come to an agreement with respect to a vast majority of the issues raised in this proceeding via the all-party stipulation, three separate and distinct matters remained unresolved: (1) how the benefits derived from the TCJA would be treated; (2) how best to address the under-funded pension liability and the status of the pension balancing account; and (3) the allocation of benefits derived from the company's gas storage and optimization activities.

The second partial stipulation dealt with above issues (1) and (2) and was agreed to by the company, CUB, and Staff. The overall rate impact of the second stipulation would result in an increase to base rates of $12.638 million. $7.132 million of the increase would be reflected as an increase to the company's revenue requirement.[20] Additionally, $5.506 million of the increase to base rates would be reflected as a separate tariff rider, which is shown in in exhibit NW Natural Staff-CUB/203. Taken together, the first stipulation and second stipulation would result in an updated revenue requirement increase of $23.132 million, or a 3.69 percent increase to base rates. When the separate tariff riders are included, the result is an updated revenue increase of $28.638 million, or a 4.57 percent increase to base rates.[21] AWEC was not a signatory to the agreement and opposes the terms of the second stipulation.

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[20] NW Natural-Staff-CUB/200, Borgerson, Wilson, Gardner, and Jenks/5.
[21] *Id.* citing NW Natural-Staff-CUB/202, Borgerson, Wilson, Gardner, and Jenks/1 and NW Natural-Staff-CUB/203.

A. Background on Disputed Issues (1) and (2)

1. The Tax Cuts and Jobs Act (TCJA)—Interim Period and Excess Deferred Income Tax (EDIT)

The TCJA lowers the U.S. federal corporate income tax rate to 21 percent from the existing maximum rate of 35 percent, effective as of January 1, 2018. The TCJA has three main impacts on the company that are relevant to this proceeding:

(1) Adjusting base rates to reflect the lower tax rate of 21 percent;
(2) The benefit that NW Natural may have received from the net decrease in its cumulative utility deferred income tax liability account balances, recorded upon enactment in 2017 (Excess Deferred Income Taxes or EDIT), and, if such benefits were received, what the appropriate treatment for this deferral (including impacts on the company's rate base associated with providing benefits to customers from the remeasured EDIT) should be; and
(3) Calculating and determining the regulatory treatment of the tax benefits for the period January 1, 2018 to October 31, 2018 (Deferral Period).

To address the change in the federal income tax rate, NW Natural filed a TCJA-related deferral application on December 29, 2017. Staff also filed a deferral application on December 29, 2017. These deferral applications are docketed as UM 1919 and UM 1924, respectively. NW Natural asserts that "[t]he reduction to income tax expense has been fully reflected in the general rate case as currently filed and no further action is necessary. No parties are currently proposing alternative positions to this element of tax reform."[22]

2. Underfunded Pension Liability and Pension Balancing Account

In 2010, NW Natural initiated docket UM 1475 to address under-recovery of its FAS 87 pension expense. At that time, the company was collecting $3.8 million of FAS 87 pension expenses in rates annually, but the company's actual pension expenses exceeded the amounts recovered in rates, and were forecasted to continue to do so for the next several years.[23]

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[22] NW Natural/2500/Borgerson/3. *See id.* at 12-18 for a discussion of the elements and regulatory accounting treatment of excess deferred income taxes.
[23] *In the Matter of Nw. Natural Gas Co., dba NW Natural, Application to Defer Pension Costs,* Docket No. UM 1475, Joint Brief in Support of Stipulation at 1 (Dec 13, 2010).

To address the company's under-recovery, we adopted a stipulation between NW Natural, Staff, CUB, and AWEC's predecessor, the Northwest Industrial Gas Users, that established a pension balancing account to track the difference between the $3.8 million collected annually in rates and the actual FAS 87 pension expenses.[24] The account is supposed to hold annual account contributions over $3.8 million as a regulatory asset, because it was expected that pension expense would decrease to below $3.8 million in future years and that would reduce the balancing account, eventually become negative and terminate upon the effective date of the first rate case after that happened. This approach was intended to stabilize the pension expenses recovered in rates and expose customers to less volatility, (*i.e.,* under-collect now and over-collect later, zeroing out in about 12-13 years), but that stated expectation was never realized.

Contrary to the original expectations of the parties, the actual expenses turned out to be significantly higher.[25] The UM 1475 settlement also included a provision that prevented any party from proposing changes to the level of cost recovery in rates in the intervening years. The result has been the creation of a pension balancing account with a significant 2017 year-end balance that is projected to increase.

B. The Terms of the Second Stipulation

The second stipulation proposes to address the pension balancing account liability in part by applying a portion of the excess deferred income taxes account increase accrued as a result of the TCJA. The mechanism proposed by the parties is as follows:

- NW Natural will "freeze" the pension balancing account as of October 31, 2018, meaning that NW Natural will no longer book the actual FAS 87 expense – net of the $3.8 million of FAS 87 authorized expense collected annually in rates pursuant to the pension balancing account Stipulation – to the pension balancing account.

- Effective on November 1, 2018, NW Natural will reduce the balance in the pension balancing account by:

    - Applying $5.9 million of amounts deferred in the Deferral Period Tax Deferral, plus interest, as an offset to the balance in the pension balancing account; and

[24] *In the Matter of Nw. Natural Gas Co., dba NW Natural, Application to Defer Pension Costs*, Docket No. UM 1475, Order No. 11-051 at 2-3 (Feb 10, 2011).
[25] NW Natural-Staff-CUB/200, Borgerson, Wilson, Gardner, and Jenks/17-18.

- Applying the $6.7 million of EDIT (Other Non-Plant) as an offset to the balance in the pension balancing account.

- Beginning on the rate effective date, NW Natural will amortize the balance of the pension balancing account over a ten-year period by collecting $8.2 million per year from all customers through a separate tariff rider. NW Natural agrees that it will amortize no more than this amount for the pension balancing account.

- Beginning on the rate effective date, NW Natural will recover the test year FAS 87 pension expense of $8.1 million in base rates.

- Second Stipulation supersedes the pension balancing account stipulation adopted in docket UM 1475, Order No 11-051.[26]

- In addition to other adjustments described above, NW Natural will return:

  - To customers EDIT (Plant) subject to the average rate assumption method (ARAM) in the amount of $3.26 million per year in base rates, and

  - To sales customers $14.26 million of EDIT (Non-Plant Gas Reserves), inclusive of a gross-up for income taxes, over five years through a separate tariff rider ($2.93 million each year).

C. AWEC's Objections to the Second Stipulation and Stipulating Parties' Responses

AWEC does not object to the recovery of future FAS 87 pension expense in base rates, but opposes the parties proposed resolution of the TCJA and pension balancing account issues. AWEC argues that the parties' recommendation was never addressed in the evidentiary phase of this docket, and raises four serious policy issues for the Commission.

First, AWEC contends that applying valid tax refund amounts that are due to ratepayers to offset a regulatory account balance, where there is no evidence that customers are responsible for 100 percent of the pension balancing account balances, is bad policy. AWEC argues that ratepayers deserve to get the funds associated with tax reform in a

[26] *Id.* at 19.

timely and reasonable manner and not have them earmarked for a questionable regulatory account balance. AWEC maintains that the pension balancing account and tax reform are two separate issues that the Commission should consider and decide on their own merits.

Second, AWEC objects to the proposal to amortize the pension balancing account balances, and argues that there has been no demonstration that ratepayers are responsible for all of those amounts. AWEC states that the UM 1475 stipulation explicitly stated that the balance could not be amortized in these circumstances. Accordingly, AWEC contends that the Commission should reject the proposal in the stipulation to amortize $94.6 million in connection with the pension balancing account and instead open a new docket to determine the appropriate ratepayer/shareholder responsibility.

Third, AWEC argues that NW Natural's calculation of the tax savings during the interim period from January 1 to October 31, 2018 is materially flawed, and litigating all of the issues surrounding that calculation through a contested stipulation at this stage in the docket is not reasonable. Accordingly, AWEC recommends that we adopt the same approach that has recently been used in Portland General Electric Company's ongoing general rate case. Rather than earmarking those funds to the pension balancing account, NW Natural should begin refunding its estimate of the interim period tax savings over a two year period, subject to a true up in the second year based on further proceeding in the tax deferral docket.

Fourth, although AWEC generally agrees with the EDIT balances and amortization amounts identified in the second stipulation, AWEC has concerns with the ARAM methodology used to calculate those values. As noted above, AWEC recommends all EDIT amounts be returned to ratepayers and not used to offset the pension balancing account balances, and requests that we acknowledge that, by using those values, we do not endorse the methodology used to calculate the ARAM or any other assumptions used in calculating the stipulated amounts. AWEC also objects to the second stipulation's proposed treatment of the $6.7 million of EDIT (Other Non-Plant). AWEC contends that those funds that are earmarked for the pension balancing account balance should be refunded to transportation customers.

The stipulating parties respond that we have favored applying the benefits of tax reform to reduce the rate impact of other customer obligations. They agree that the full amount of the pension balancing account is recoverable through rates, and urge that failure to address the pension balancing account will simply increase costs to ratepayers by allowing the account balance and related financing costs to grow. The stipulating parties dismiss AWEC's calculation of the interim period tax savings, and point out that federal tax rules require the use of the ARAM to amortize plant-related EDIT.

D. Commission Resolution

As set forth further below, we reject all of the second stipulation except for two parts: We direct NW Natural to freeze the pension balancing account, and authorize the company to set its FAS 87 expense to be included in rates at $8.1 million annually. We direct NW Natural to file rates consistent with these decisions, and direct the parties to engage in further proceedings to resolve open issues with respect to the pension balancing account and the treatment of the 10-month deferral period benefits associated with the TCJA.

We recognize that the parties entering into the second stipulation negotiated in good faith and analyzed many aspects of these two issues in seeking to forge an agreement that would satisfy the statutory requirements regarding the provision of services at just and reasonable rates. Although we commend their efforts and encourage further work to reach a practical solution, we are not convinced that there is a sufficient record to support approval of the second stipulation. We do not oppose the concept of using interim period tax savings to offset the rate impacts of addressing the pension balancing account, and we support prompt action to address both issues. Our primary concern is with insufficient support in the record to conclude that the entirety of the pension balancing account's very significant current balance is subject to recovery from ratepayers without a prudence review or earnings test.

Although the stipulating parties assert that the prior stipulation adopted in Order No. 11-051 implies agreement to full recovery of any balance in customer rates, with no prudence review or earnings test, we discern no such an intent. The stipulation anticipated that the balance in the account would trend to zero and therefore did not address the amortization method if the anticipated zero balance did not materialize. We also highlight that AWEC, a signatory to that stipulation, also disagrees that the stipulation implied this result. Under the circumstances, we must base our decision on a more robust demonstration that the public interest supports full recovery of the balance in customer rates.

We note the stipulating parties' argument that objecting parties had ample opportunity, both within this proceeding and previously, to raise issues with prudence and the method for recovery as FAS 87 amounts were booked. The stipulating parties, however, also have a responsibility to anticipate reasonable issues and provide adequate grounds for us to conclude that full recovery without an earnings test is in the public interest. In the absence of further support, we are unable to determine whether ratepayers are being treated fairly in the settlement.

Despite our inability to approve the second stipulation on this record, we agree that these issues should be addressed promptly. Therefore, we direct further proceedings to be concluded no later than February 1, 2019, to resolve both the application of TCJA 10-month interim benefits to rates and the conclusion of the pension balancing account. To mitigate the growth of the problem during this time, we direct NW Natural to freeze the pension balancing account, and authorize the company to set its FAS 87 expense to be included in rates at $8.1 million annually.

V. GAS STORAGE AND OPTIMIZATION ACTIVITIES

The one issue not addressed in either stipulation relates to the cost and benefit sharing related to NW Natural's optimization of its Mist storage facilities and other assets. We briefly provide background information of this facility, the concerns and arguments of the parties, and our resolution.

A. Background

The original utility storage and related pipeline development at Mist, Oregon went into service in 1989, with subsequent expansions for utility customers in 1991, 1997, and 1999.[27] These early expansions of the Mist site, which utilizes depleted gas wells, were intended to serve core customers, and the capital costs were therefore included in utility rate base. In the late 1990s, NW Natural decided to develop additional incremental capacity and storage to serve the broader Pacific Northwest regional market as an unregulated service. The company invested shareholder dollars to add capacity at Mist in 2001, with subsequent shareholder investments for additional expansions in 2004, 2005, and 2007. To date, these non-regulated, non-rate base investments have totaled over $65 million. This storage has been available to core customers and portions have been added to the rate base on an as-needed basis, at a depreciated rate. As a result, a portion of the Mist facility is in rate base and regulated, and a portion is shareholder-owned and non-regulated.

NW Natural decided to "optimize" its storage capacity through wholesale trading and a separate business segment was created to conduct storage services and optimization activities. Optimization activities initially included sale and trading of excess gas, unregulated Mist storage (Intra and Interstate Storage Services or ISS), and excess capacity on upstream pipeline contracts on the Northwest Pipeline and other upstream pipeline systems. The company later added new wholesale trading activities such as the exchange of gas commodity contract purchases at different trading locations (portfolio

[27] *See* Order No. 89-1372 (Oct 8, 1989) (Docket Nos. UG 81, UG 84).

optimization), the use of off-system, underground storage contracts at Jackson Prairie and in Alberta, and the extraction of natural gas liquids.

NW Natural contracts with a third party wholesale natural gas trading company, Tenaska Marketing Ventures (TMV), to manage the optimization activities across the west, including transactions utilizing both the core customer and non-utility portions of Mist. NW Natural develops strategies with the optimization partner to maximize value while maintaining reliability standards for core utility and storage service customers. However, TMV does not manage the ISS business at Mist. The cost of NW Natural's involvement in optimization is allocated to the separate non-regulated Gas Storage business segment in which the costs and revenues of Storage Services and Optimization Services are recorded.[28]

With our approval, ratepayers participate in the benefits of these activities through two schedules:

> Schedule 185: Currently, a storage and transportation credit is given to core customers[29] receiving firm sales whose rates include storage related costs. These customers get 20 percent of the net margin from non-utility storage and optimization based on an amount attributable to non-utility Mist capacity not included in the rates and 67 percent of the margin on optimization for the proportion of core Mist capacity included in the rates.[30]
>
> Schedule 186: This schedule applies to firm and interruptible sales service customers whose rates include costs related to upstream pipeline capacity with the purpose of crediting eligible customers with the Oregon share of net margins received by NW Natural for the optimization of core customer pipeline capacity. This includes all off-system pipeline capacity, commodity, liquids extraction, and storage capacity. Schedule 186 does

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[28] *In the Matter of Northwest Natural Gas Company, dba NW Natural, Investigation of Interstate Storage and Optimization Sharing,* Docket No. UM 1654, Order No. 15-066 at 1-2 (Mar 5, 2015).

[29] Schedule 185, titled "Special Annual Interstate and Intrastate Storage and Transportation Credit," applies to core customers receiving firm sales service, whose rates include costs related to the Mist storage facility. Schedule 185 credits these core customers for the Oregon share of net margins received by the company for (1) interstate storage and related transportation services provided under FERC jurisdiction, (2) intrastate storage activities and related transportation services under Schedule 80, and (3) optimization of total Mist storage capacity. Eligible customers receive a 20 percent share of the net margin received from non-utility interstate and intrastate storage services, and the net margin attributable to optimization of non-utility Mist capacity not included in rates.

[30] *See In the matter of Northwest Natural Interstate Storage and Optimization Sharing,* Docket UM 1654, NWN/100, White/10.

> not apply to optimization of those portions of Mist storage that is included in customer rates. NW Natural shares with eligible customers the net margin attributable to this third party optimization for the entire portfolio of upstream capacity contracts. Specifically, the company shares net revenues with its firm and interruptible sales customers on a 67/33 basis, with 67 percent credited to customers 33 percent to be retained by NW Natural.[31]

NW Natural currently pays Tenaska to manage the optimization activities, but allocates the manager's share to the non-Mist optimization revenues. Consequently, the management costs come out of the revenue associated solely with Schedule 186.

The various sharing percentages are summarized in the following table:

Revenue Sharing Today Customer / NWN	Customer-owned (58.63% of Mist)	NWN-owned (41.36% of Mist)
ISS at Mist (Schedule 185)	n/a	20/80
Mist gas optimization (Schedule 185)	67/33	20/80
Other asset optimization (Schedule 186) (beyond PGA deadband)	67/33 (less all TMV management fees)	n/a

In Order No. 15-066, we ordered a third-party study to examine risks, costs and benefits of NW Natural's activities and allocation of components between regulated and unregulated services.[32] Referred to as the "Liberty Report,"[33] the study's conclusions and recommendations are at the center of the disagreement among the parties with respect to these sharing percentages. The Liberty Report concluded that with respect to

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[31] *Id.* NW Natural sought this change in order to match the sharing with the weighted average cost of gas to eliminate any concerns regarding potential gamesmanship in the classification of activities of optimization versus normal utility gas supply savings.

[32] "We determine that a neutral third party should conduct an evaluation and cost allocation study of NW Natural's optimization activities. The study will more robustly examine the risks, costs, and benefits of NW Natural's optimization activities, the assets being utilized for those activities, the allocation between regulated and unregulated services, and the various components of NW Natural's system that drive the costs and revenues associated with interstate storage services. We agree with NWIGU that the sharing mechanisms should be fact-based and reflect the true value of customers' and shareholders' contributions." Order No. 15-066 at 5.

[33] *Final Report on The Liberty Consulting Group's Evaluation of NW Natural's Optimization Activities,* NW Natural/1301.

Mist storage, "[t]he original design, the historical results, the expected results, the continuation of similar risks and opportunities, and the comparatively smaller dollar amounts at stake provide significant support for continuing the current sharing arrangements for interstate and intrastate Mist storage." However, with respect to optimization activities, the report provides:

> Given the lack of large risk involved in optimization and given the lack of factors that make optimization materially more complex or challenging at NW Natural, we can postulate no reason justifying a large gap between NW Natural and the rest of the industry. If the goal in Oregon remains to provide a sufficient incentive for management to commit fully to asset optimization, then the experience of our large sample group compels a conclusion that the prevailing view is that a lower share for ownership will nevertheless provide strong incentives to maximize performance without incurring undue risk.[34]

B. Positions of the Parties

NW Natural argues that the existing sharing percentages for optimization activities should be retained as a reflection of the fact that its activities were the result of substantial effort and that they have yielded significant benefits for customers. The company disagrees with key conclusions of the Liberty Report that found that NW Natural's efforts were in line with other utilities' but that its sharing percentages are an outlier among peer utilities. The company argues that its actions and those of its asset manager were more sophisticated and complex than average and that the report failed to grasp the lack of comparability without a more detailed analysis.

Staff, CUB, and AWEC initially had differing proposals for sharing of the margin on optimization of gas at Mist. Over the course of the proceedings, CUB moderated its original position seeking 90/10 sharing for all Mist revenues to 90/10 sharing for the customer proportion of Mist and 20/80 sharing for the shareholder owned portion. Similarly, AWEC had argued for 85/10 of the customer proportion and a flip to 80/20 of the shareholder owned portion.

However, Staff, CUB, and AWEC reached a common position, each relying upon many of the Liberty Report's conclusions and recommendations. They concur in the retention of the current Schedule 185, as it relates to ISS utilizing unregulated storage. Staff states

[34] *Id.* at 65.

> The circumstances at Mist are unique because of the benefits to customers from the subject-to-recall assets owned by shareholders. As noted in the Liberty Report, the subject to recall assets provide ratepayers two benefits generally absent when a utility invests in gas supply assets: (1) "just-in-time" capacity additions through the ability to recall just the amounts needed presently and from a pool of resources designed to exist in advance of core utility needs, and (2) reduced costs through the ability to bring the assets into rate base at their depreciated original costs at the time of recall.[35]

Citing the Liberty Report with respect to Schedule 186, Staff, CUB, and AWEC all recommend increasing the ratepayer benefit from non-Mist optimization credit from 67 percent customers/33 percent NW Natural to a ratio favoring customers more. Staff and CUB recommend 90 percent customers/10 percent NW Natural. AWEC originally proposed an 85/15 split, but joined in the recommendations of Staff and CUB as being reasonable and supported by the record.[36]

The final positions of Staff, CUB, and AWEC with respect to the sharing of net revenues are summarized below:

Revenue Sharing Proposal Customer / NWN	Customer-owned (58.63% of Mist)	NWN-owned (41.36% of Mist)
ISS at Mist (Schedule185)	n/a	20/80
Mist gas optimization (Schedule185)	90/10	20/80
Other asset optimization (Schedule186) (beyond PGA deadband)	90/10	n/a

CUB also recommended changes with respect to the allocation of optimization manager costs and with respect to certain reporting requirements. CUB argued that Tenaska is managing optimization of both the Mist portion and the non-Mist portion and that, within Mist, the asset manager is optimizing both the core and the at-risk storage assets. CUB

[35] Staff Brief at 6-7, citing NW Natural/1301, Friedman/23-24 (Liberty Report).
[36] AWEC Response to NW Natural's Opening Brief at 3-4 and at 10, citing Staff/1600, Glosser/5:5-9; CUB/400, Jenks/3-22-23; AWEC/400, Finklea/5:13-18.

asserts that changing the sharing margin from 67/33 to 90/10 has no impact on the incentive offered to Tenaska.[37]

CUB notes that, during the UM 1654 proceeding, the parties learned that NW Natural had not been reporting earnings related to optimization activities as part of its Results of Operations Report (ROO). The company instead booked its share of optimization revenue as non-utility storage revenue. CUB argues that the ROO should include optimization revenues associated with rate-based, regulated activities, but exclude optimization revenues associated with interstate storage. In CUB's view, this change will increase transparency and make earnings comparisons between utilities and state regulators easier.[38] Staff and AWEC also recommend that the Commission require the company to report system optimization revenues in the ROO.

NW Natural responds to the reporting recommendation by arguing that such earnings might be inappropriately considered in the application of earnings tests. It recommends an alternative, annual Optimization Report.[39]

C. Commission Resolution

We adopt the recommendations of Staff, CUB, and AWEC with respect to NW Natural's Mist storage and optimization activities. The sharing ratios set forth in Schedule 185 for the regulated, customer owned proportion of Mist optimization will be 90 percent customers/10 percent company. The sharing ratios in Schedule 186 are changed from the former 67 percent customers/33 percent company to 90 percent customers/10 percent company effective November 1, 2018. Our decision is reflected in the following table:

Revenue Sharing Going Forward Customer / NWN	Customer-owned (58.63% of Mist)	NWN-owned (41.36% of Mist)
ISS at Mist (Schedule 185)	n/a	20/80
Mist gas optimization (Schedule185)	90/10	20/80
Other asset optimization (Schedule186) (beyond PGA deadband)	90/10	n/a

[37] CUB/400, Jenks/5.
[38] *Id.* at 20-22.
[39] NW Natural Opening Brief at 3 and Final Brief at 7.

Our adoption of their recommendations is consistent with the analysis and conclusions of the independent, third-party study. The report's analysis of optimization activities by other, similarly situated utilities reflects the reality that such activities have become standardized and pose very little risk to the utilities' investors.

According to the Liberty Report, the median natural gas utilities nationwide share 90 percent or more of their net optimization revenues with customers. Thus, the sharing ratio between NW Natural shareholders and customers was shown by the Liberty Report to be a significant outlier to the norms of the industry, providing shareholders with a far more generous portion of the revenues than the majority of utilities engaged in optimization activities. We also find that, based on the Liberty Report analysis and conclusions, NW Natural's incentive to perform optimization activities in an efficient manner, either directly or through its relationship with Tenaska, will not be diminished in any meaningful way by changing the sharing percentages in Schedules 185 and 186. We further conclude that asset optimization is a component of the company's overall obligation to prudently operate its business.

Going forward, the optimization manager's fees will be deducted from all optimization activities prior to further sharing. Shareholders and customers will shoulder the fees proportionally rather than customers exclusively paying the fees.

Finally, we require that NW Natural report optimization revenues as part of the ROO. By including the information in the ROO, we will have a concise and clear means of assessing all sources of earnings and will be easily able to segregate out such line items as should not be considered in a test of the company's earnings.

VI. ORDER

IT IS ORDERED that:

1. The first partial stipulation between Northwest Natural Gas Company; Staff of the Public Utility Commission of Oregon; Oregon Citizens' Utility Board; and the Alliance of Western Energy Consumers, attached as Appendix A, is adopted.

2. The second partial stipulation between Northwest Natural Gas Company; Staff of the Public Utility Commission of Oregon and the Oregon Citizens' Utility Board, attached as Appendix B, is adopted in part consistent with the terms of the order.

3. Advice No. OPUC 17-22 filed on December 29, 2017, and Advice No. OPUC 17-22 Supplement A filed March 20, 2018, are permanently suspended.

4. Northwest Natural Gas Company must file new tariffs consistent with this order to be effective on November 1, 2018.

5. Further proceedings will be conducted to expeditiously address the Tax Cuts and Jobs Act interim period excess deferred income tax issue and underfunded pension liability and pension balancing account issue as discussed in this order.

Made, entered, and effective OCT 26 2018.

Megan W. Decker
Chair

Stephen M. Bloom
Commissioner

Letha Tawney
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 344

In the Matter of NW NATURAL GAS COMPANY D/B/A NW NATURAL Application for a General Rate Revision.	**STIPULATION**

INTRODUCTION

The purpose of this Stipulation is to resolve issues among NW Natural Gas Company d/b/a NW Natural (NW Natural or the Company), Staff of the Public Utility Commission of Oregon (Staff), Oregon Citizens' Utility Board (CUB), and the Alliance of Western Energy Consumers (AWEC) (collectively, the Stipulating Parties) in Docket No. UG 344, NW Natural's Application for a General Rate Revision. The Stipulating Parties are the only parties to this proceeding, and they expect this Stipulation to resolve all the issues raised in this docket with the exception of issues related to the Company's pension balancing account, sharing of revenues produced by optimization of certain NW Natural assets and the Company's Interstate Storage operations, and the impact of the 2017 federal Tax Cuts and Jobs Act on the Company's accumulated deferred income tax and the Company's tax expense during the time period leading up to the rate effective date. These remaining issues continue to be litigated by the Stipulated Parties.

BACKGROUND

On December 29, 2017, NW Natural filed a request for a general rate increase and revised tariff sheets to become effective November 1, 2018 (the Initial Filing). The Company's Initial Filing requested a revision to customer rates that would increase the Company's annual Oregon jurisdictional revenues by $52.4 million (or $40.38 million after the adjustment for decoupling is considered), or an approximately 8.3 percent over current customer rates. Administrative Law Judge Allan J. Arlow convened a prehearing conference on February 1, 2018. On March 20, 2018, the Company filed supplemental direct testimony regarding updates to the test year and revenue requirement that accounted for the impacts of the 2017 federal Tax Cuts and Jobs Act to the Test Year and revised the application of the depreciation study approved by the Commission on January 5, 2018 in Docket No. UM 1808 (the Supplemental Filing). The impact of these revisions was to reduce the requested revenue requirement to $37.8 million (or $25.7 million after the consideration for decoupling).

On April 20, 2018, Staff, CUB, and AWEC filed opening testimony proposing various adjustments to NW Natural's Initial Filing. The parties convened an initial settlement conference on April 30, 2018. NW Natural filed its reply testimony on May 23, 2018. In its reply testimony (Reply Filing), the Company provided corrections and updates to its Initial Filing and responded to the testimony of Staff, CUB, and AWEC. The Stipulating Parties convened a second settlement conference on May 30-31, 2018. As a result of those discussions, the Stipulating Parties made progress towards settlement of the issues presented in this Stipulation. The Stipulating Parties convened a final settlement conference on June 12, 2018 and reached a settlement of all issues presented in this Stipulation. This Stipulation memorializes the Stipulating Parties' agreements reached at the June 12, 2018 settlement conference.

TERMS OF AGREEMENT

The Stipulation resolves the issues addressed below:

1. Revenue Requirement. The Stipulating Parties agree that the total increase to NW Natural's annual Oregon revenue requirement amount is $16,000,000, as summarized in the table in Appendix A to this Stipulation. The $16,000,000 annual revenue requirement increase in this proceeding is based on the Stipulating Parties' agreement that the

Company's requested Oregon-allocated increase to annual revenue requirement shall be reduced by a total of $21.8 million from the Supplemental Filing amount of $37.8 million, based on the following adjustments to NW Natural's Initial Filing and Supplemental Filing:

(a) ODOE Fees. A reduction of $19,000 in expense to reflect a weighting of the last two years of fees equally. This adjustment results in a reduction to revenue requirement of $20,000;

(b) Property Taxes. A reduction of $147,000 in expense based on a compromise position between Staff's recommendation to adopt a three-year average, and the Company's position. This adjustment results in a reduction to revenue requirement of $152,000;

(c) Customer deposits. A reduction to rate base of $291,000 based on Staff's methodology of trending over the 2010-2017 period, with a change to Staff's methodology to update the calculation to use monthly values instead of Staff's year-end approach. This adjustment results in a reduction to revenue requirement of $27,000;

(d) Salary, Wages, and Incentives, and Medical Benefits. A reduction of $5,791,000 in expense and $2,300,000 to rate base to reflect a compromise between the Company's Initial Filing and Staff's proposed adjustments. This adjustment results in a decrease to revenue requirement of $6,171,000. The Company also retains the right to request a separate generic docket to revisit Commission policy regarding incentive pay. The impacts of any such docket would not apply to this proceeding;

(e) Plant Adjustments. A reduction of $33,730,000 to rate base to reflect removal of projects that will not go into service until after November 1, 2018, except that the Stipulating Parties have agreed to include for the Test Year a portion of the capital additions related to customer acquisitions. This adjustment results in a reduction to revenue requirement of $5,389,000. In recognition of the capital associated with customer additions, the Stipulating Parties have agree to also include an addition of $13,516,000 to rate base to reflect the capital additions associated with new customers added during the test year, which increases revenue requirement by $1,671,000. As described below, the Company has agreed to respond to additional discovery requests regarding forecast capital additions.

(f) Advertising Expense, Promotions and Concessions, Affiliated Interest, and Miscellaneous A&G. A reduction of $3,306,000 to reflect a compromise between the Company's Initial Filing and Staff's recommendations for these categories of expense. This results in a reduction to revenue requirement of $3,401,000.

(g) Miscellaneous Revenues. An increase of $70,000 in revenue. This results in a $70,000 reduction to revenue requirement;

(h) Fee Free Bankcard Program. A reduction of $180,000 in expense to reflect savings estimated by Staff related to adoption of the program. This results in a revenue requirement reduction of $185,000;

(i) Director and Officer Insurance Premiums. A reduction of $191,000 in expense. This adjustment results in a reduction to revenue requirement of $196,000;

(j) Gas Storage and Fuel Stock. A reduction of $16,000 to revenue requirement to reflect a compromise between the Company's Initial Filing and Staff's proposal to use a three-year average to calculate this amount.

(k) Plaint Maintenance. A reduction of $40,000 to expense to reflect a compromise between the Company's Initial Filing and Staff's proposal to use a three-year average. This adjustment results in a reduction to revenue requirement of $41,000;

(l) Distribution Operations and Maintenance (O&M). A reduction of $200,000 to expense to reflect a compromise between the Company's Initial Filing and Staff's proposal to use a three-year average. The adjustment results in a reduction to revenue requirement of $206,000;

(m) Stock Issuance Costs. A reduction of $1,198,000 to expense to reflect Staff's recommendation not to account for these costs separately from return on equity. This adjustment results in a reduction to revenue requirement of $1,233,000;

(n) Customer Account Expense. A reduction of $100,000 to expense to reflect a compromise between the Company's Initial Filing and Staff's proposal to use a three-year average. The adjustment results in a reduction to revenue requirement of $103,000;

(o) Memberships, Dues and Donations. A reduction of $186,000 to expense to reflect Staff's recommendation for removal of 25% of the fees associated with national organizations. This adjustment results in a reduction to revenue requirement of $191,000;

(p) Meals, Entertainment and Travel. A reduction of $910,000 to expense. This adjustment reflects a compromise between the Company's Initial Filing and Staff's proposed adjustments and results in a reduction to revenue requirement of $936,000;

(q) Research and Development (R&D) Tax Credits. A reduction of $22,000 to revenue requirement, to reflect the R&D tax credit as proposed by AWEC.

2. Cost of Capital. The Stipulating Parties agree to a rate of return of 7.317%, which is based on a 50.0 percent equity and 50.0 percent long term debt capital structure,

with a Return on Equity (ROE) of 9.400% and a debt cost of 5.233%. An ROE of 9.400% results in a reduction to the revenue requirement of $ 5,127,000.

Agreed-upon Cost of Capital			
	Percent of Total Capital	Cost	Component
Long-Term Debt	50.0%	5.233%	2.617%
Common Equity	50.0%	9.400%	4.700%
Total	100.0%		7.317%

3. Rate Spread and Rate Design. The agreed upon rate spread is shown in Appendix B to this Stipulation. The Stipulating Parties agreed to a consistent increase for all rate classes (equal percentage of margin).

4. Capital Additions. The Company agrees to respond to additional discovery requests regarding forecast capital additions. These requests and responses to these requests will not inform this proceeding but could be used to inform the Company's future rate proceedings.

5. Promotions and Concessions. The Company agrees to review and amend its promotions and concessions accounting practices to address concerns raised by Staff in the proceeding.

6. Attestation. The Company agrees to file an attestation of a Company officer by October 5, 2018, attesting to whether any projects forecast to cost over $1,000,000 and

to be completed by October 31, 2018 will not be complete by this time. In the event that there are such projects, those projects will be removed from rate base for purposes of calculating the rates pursuant to this Stipulation, and rates adjusted accordingly.

7. Tariffs. Subject to approval of this Stipulation, NW Natural will file revised rate schedules as a compliance filing in Docket No. UG 344, to be effective November 1, 2018, reflecting rates as agreed in this Stipulation.

8. Revenue Decoupling. The Company agrees to withdraw its proposed changes to its revenue decoupling mechanism which it proposed in this proceeding. The Stipulating Parties do agree, however, to administer decoupling for the Commercial customer class on a rate schedule specific basis (Rate Schedules 3 and 31), as compared to the previous combined basis.

9. The Stipulating Parties recommend and request that the Commission approve the adjustments and provisions described herein as appropriate and reasonable resolutions of the identified issues in this docket.

10. The Stipulating Parties agree that this Stipulation is in the public interest, and will result in rates that are fair, just and reasonable, consistent with the standard in ORS 756.040.

11. This Stipulation will be offered into the record as evidence pursuant to OAR 860-001-350(7). The Stipulating Parties agree to support this Stipulation throughout this proceeding and any appeal, provide witnesses to sponsor this Stipulation at hearing, and recommend that the Commission issue an order adopting the Stipulation. The Stipulating Parties also agree to cooperate in drafting and submitting joint testimony or a brief in support of the Stipulation in accordance with OAR 860-001-0350(7).

12. If this Stipulation is challenged, the Stipulating Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation. The

Stipulating Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented, which may include raising issues that are incorporated in the settlements embodied in this Stipulation.

13. The Stipulating Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any of the Stipulating Parties are entitled to withdraw from the Stipulation or exercise any other rights provided in OAR 860-001-0350(9). To withdraw from the Stipulation, a Stipulating Party must provide written notice to the Commission and other Stipulating Parties within five days of service of the final order rejecting, modifying or conditioning this Stipulation.

14. By entering into this Stipulation, no Stipulating Party approves, admits, or consents to the facts, principles, methods, or theories employed by any other Stipulating Party in arriving at the terms of this Stipulation, other than those specifically identified in the body of this Stipulation. No Stipulating Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as specifically identified in this Stipulation.

15. This Stipulation is not enforceable by any Stipulating Party unless and until adopted by the Commission in a final order. Each signatory to this Stipulation avers that they are signing this Stipulation in good faith and that they intend to abide by the terms of this Stipulation unless and until the Stipulation is rejected or adopted only in part by the Commission. The Stipulating Parties agree that the Commission has exclusive jurisdiction to enforce or modify the Stipulation. If the Commission rejects or modifies this Stipulation, the Stipulating Parties reserve the right to seek reconsideration or rehearing of the Commission order under ORS 756.561 and OAR 860-001-0720 or to appeal the Commission order under ORS 756.610.

16. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Stipulating Party on the date entered below such Stipulating Party's signature.

DATED this 6th day of August, 2018.

NW NATURAL COMPANY D/B/A NW NATURAL

By: ______________________

Date: 8/6/18

STAFF OF PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

OREGON CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

ALLIANCE OF WESTERN ENERGY CONSUMERS

By: ______________________

Date: ______________________

OREGON CITIZENS' UTILITY BOARD

By: [signature]

Date: 7/27/18

ALLIANCE OF WESTERN ENERGY CONSUMERS

By: ______________________________

Date: ______________________________

16. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Stipulating Party on the date entered below such Stipulating Party's signature.

DATED this __ day of __________, 2018.

NW NATURAL COMPANY D/B/A NW NATURAL	STAFF OF PUBLIC UTILITY COMMISSION OF OREGON
By: ______________	By: ______________
Date: ______________	Date: ______________
OREGON CITIZENS' UTILITY BOARD	ALLIANCE OF WESTERN ENERGY CONSUMERS
By: ______________	By: ______________
Date: ______________	Date: 8/6/18

15. This Stipulation is not enforceable by any Stipulating Party unless and until adopted by the Commission in a final order. Each signatory to this Stipulation avers that they are signing this Stipulation in good faith and that they intend to abide by the terms of this Stipulation unless and until the Stipulation is rejected or adopted only in part by the Commission. The Stipulating Parties agree that the Commission has exclusive jurisdiction to enforce or modify the Stipulation. If the Commission rejects or modifies this Stipulation, the Stipulating Parties reserve the right to seek reconsideration or rehearing of the Commission order under ORS 756.561 and OAR 860-001-0720 or to appeal the Commission order under ORS 756.610.

16. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Stipulating Party on the date entered below such Stipulating Party's signature.

DATED this __ day of __________, 2018.

NW NATURAL COMPANY D/B/A NW NATURAL

By: ____________________

Date: ____________________

STAFF OF PUBLIC UTILITY COMMISSION OF OREGON

By: [signature]

Date: August 1, 2018

NW Natural
UG 344
Twelve Months Ended October 31, 2019
(000)

	SUMMARY SHEET	2017 Results Per Company Filing at Present Rates (1)	(2)	2019 Results Per Company Filing (3)	Company Filed Required Change for Reasonable Return (4)	Company Filed 2019 Results at Reasonable Return (5)	Staff Adjustments to Company 2019 Results (6)	Staff Adjusted 2019 Company Results (3) + (6) (7)	Staff Required Change for Reasonable Return (8)	Staff Results at Reasonable Return (7) + (8) (9)
1	**Operating Revenues**									
2	General Business	637,346	(27,330)	610,016	37,816	647,831	-	610,016	16,000	626,015
3	Transportation	17,390	(743)	16,647	-	16,647	-	16,647	-	16,647
4	Decoupling	11,599	(11,599)	-	-	-	-	-	-	-
5	WARM	(16,622)	16,622	-	-	-	-	-	-	-
6	Miscellaneous Revenues	3,564	(138)	3,426	-	3,426	70	3,496	-	3,496
7	Total Operating Revenues	653,277	(23,189)	630,089	37,816	667,904	70	630,159	16,000	646,158
8	**Operating Expenses**									
9	Gas Purchased	291,761	(14,907)	276,854	-	276,854	-	276,854	-	276,854
10	Transmission & Storage	7,428	(111)	7,317	-	7,317	(16)	7,301	-	7,301
11	Distribution	47,904	(355)	47,549	-	47,549	(240)	47,309	-	47,309
12	Customer Accounts	19,047	(855)	18,191	-	18,191	-	18,191	-	18,191
13	Customer Service	4,817	(301)	4,516	-	4,516	(100)	4,416	-	4,416
14	Sales	4,229	73	4,302	-	4,302	-	4,302	-	4,302
15	OPUC Fees	1,960	(70)	1,890	113	2,004	0	1,890	48	1,938
16	Franchise Fees	15,483	(550)	14,933	896	15,829	2	14,935	379	15,314
17	Uncollectibles	716	(7)	710	43	753	0	710	18	728
18	General Operations & Maintenance	3,916	539	4,456	-	4,456	-	4,456	-	4,456
19	Admin & General Expenses	44,003	13,115	57,118	-	57,118	(10,564)	46,554	-	46,554
20	Environmental Rider	5,000	-	5,000	-	5,000		5,000	-	5,000
21	Total Operation & Maintenance	446,263	(3,427)	442,836	1,053	443,889	(10,918)	431,918	445	432,364
22	Depreciation & Amortization	71,362	5,009	76,371	-	76,371	(1,697)	74,674	-	74,674
23	Taxes Other than Income	26,214	2,337	28,551	-	28,551	(254)	28,297	-	28,297
24	Equity Floatation		1,198	1,198	-	1,198	(1,198)	-	-	-
25	Income Taxes	35,096	(19,660)	15,435.6727	9,927	25,363	3,963	19,399	4,200	23,599
26	Total Operating Expenses	578,935	(14,544)	564,392	10,980	575,372	(10,104)	554,287	4,646	558,933
27	Net Operating Revenues	74,342	(8,645)	65,697	26,836	92,532	10,174	75,871	11,354	87,225
28	**Average Rate Base**									
29	Utility Plant in Service	2,576,151	13,674	2,831,198	-	2,831,198	(55,972)	2,775,226	-	2,775,226
30	Less: Accumulated Depreciation & Amortization	(1,143,047)	(6,365)	(1,244,909)	-	(1,244,909)	32,691	(1,212,218)	-	(1,212,218)
31	Accumulated Deferred Income Taxes	(396,737)	(70)	(409,841)	-	(409,841)	767	(409,074)	-	(409,074)
32	Accumulated Deferred Inv. Tax Credit		-	-	-	-	-	-	-	-
33	Net Utility Plant	1,036,366	7,238	1,176,449	-	1,176,449	(22,514)	1,153,934	-	1,153,934
34	Plant Held for Future Use	-	-	-	-	-	-	-	-	-
35	Other Rate Base		-	-	-	-	-	-	-	-
36	Aid in Advance of Construction	(3,298)	(179)	(3,476)	-	(3,476)	-	(3,476)	-	(3,476)
37	Customer Deposits	(4,189)	340	(3,849)	-	(3,849)	(291)	(4,140)	-	(4,140)
38	Gas Inventory	54,775	(19,402)	35,373	-	35,373	-	35,373	-	35,373
39	Materials & Supplies	9,087	1,312	10,399	-	10,399	-	10,399	-	10,399
40	Weatherization Loans	-	-	-	-	-	-	-	-	-
41	Prepayments	-	-	-	-	-	-	-	-	-
42	Misc. Deferred Debits & Credits	-	-	-	-	-	-	-	-	-
43	Misc. Rate Base Additions/(Deductions)	-	-	-	-	-	-	-	-	-
44	Total Average Rate Base	1,092,742	122,154	1,214,895	-	1,214,895	(22,805)	1,192,090	-	1,192,090
45	**Rate of Return**	6.803%		5.408%		7.616%		6.365%		7.317%
46	**Implied Return on Equity**	5.582%		5.582%		10.000%		7.495%		9.400%

ORDER NO. 18 419

ORDER NO. 18 419

NW Natural
Oregon Jurisdictional Rate Case
Test Year Twelve Months Ended October 31, 2019

APPENDIX B - UG 344 STIPULATION

Allocation by Rate Schedule Summary

Line No.	Rate Schedule	Total Revenue at Present Rates	Proposed Revenue Increase	Total Revenue at Proposed Rates	Total Revenue Percentage Increase	Percentage Increase to Average Bill
1	02	$ 387,770,097	$ 10,696,958	$ 398,467,055	2.76%	2.81%
2	03CSF	$ 137,975,522	$ 3,265,092	$ 141,240,613	2.37%	2.40%
3	03ISF	$ 3,740,132	$ 81,855	$ 3,821,987	2.19%	2.22%
4	27CSF	$ 1,038,854	$ 25,607	$ 1,064,461	2.46%	2.50%
5	31CSF	$ 18,521,031	$ 382,345	$ 18,903,376	2.06%	2.12%
6	31CTF	$ 1,113,636	$ 51,199	$ 1,164,835	4.60%	4.61%
7	31ISF	$ 8,813,710	$ 146,530	$ 8,960,240	1.66%	1.70%
8	31ITF	$ 89,844	$ 4,131	$ 93,975	4.60%	4.61%
9	32 CSF	$ 24,565,050	$ 407,601	$ 24,972,651	1.66%	1.87%
10	32ISF	$ 7,608,655	$ 94,748	$ 7,703,403	1.25%	1.42%
11	32TF	$ 7,460,021	$ 342,970	$ 7,802,991	4.60%	5.87%
12	32CSI	$ 9,271,906	$ 100,304	$ 9,372,210	1.08%	1.42%
13	32ISI	$ 10,710,650	$ 115,869	$ 10,826,519	1.08%	1.39%
14	32TI	$ 6,194,584	$ 284,792	$ 6,479,376	4.60%	4.87%
15	33T	$ -	$ -	$ -	0.00%	0.00%
16	**Total**	**$ 624,873,692**	**$ 16,000,000**	**$ 640,873,692**	**2.56%**	

	Percent Increase	Dollar/Year Increase
Residential	2.76%	$10,696,958
Commercial	2.20%	$ 4,232,148
Industrial	2.40%	$ 1,070,894
Overall to NWN	2.56%	$16,000,000

ORDER NO. 18 419

NW Natural
Oregon Jurisdictional Rate Case
Test Year Twelve Months Ended October 31, 2019

APPENDIX B - UG 344 STIPULATION

Rates by Rate Schedule & Block

Line No.	Schedule	Block		Volumes	Customers	Current Rates Volumetric Margin	Proposed Revenue Increase	Current/Proposed Rates Monthly Base Charge	Current Rates Base Rate	Change Base Rate Increase	Proposed Rates Base Rate
1	2R		N/A	385,050,429	606,891	$171,231,926	$10,696,958	$8	$0.44470	$0.02778	$0.47248
2	3C Firm Sales		N/A	166,461,516	58,617	$58,997,251	$3,265,092	$15	$0.35442	$0.01961	$0.37403
3	3I Firm Sales		N/A	4,874,416	355	$1,672,510	$81,855	$15	$0.34312	$0.01679	$0.35991
4	27 Dry Out		N/A	1,197,518	1,952	$405,266	$25,607	$6	$0.33841	$0.02138	$0.35979
5	31C Firm Sales	Block 1	2,000	12,784,484	740	$5,197,968	$382,346	$325	$0.21386	$0.01573	$0.22959
6		Block 2	all additional	12,605,537					$0.19546	$0.01438	$0.20984
7	31C Firm Trans	Block 1	2,000	1,533,968	74	$603,036	$51,180	$575	$0.18122	$0.01539	$0.19661
8		Block 2	all additional	1,972,618					$0.16570	$0.01407	$0.17977
9	31I Firm Sales	Block 1	2,000	4,299,679	217	$2,208,104	$146,530	$325	$0.16888	$0.01121	$0.18009
10		Block 2	all additional	9,710,863					$0.15261	$0.01013	$0.16274
11	31I Firm Trans	Block 1	2,000	91,578	5	$55,344	$4,131	$575	$0.16403	$0.01224	$0.17627
12		Block 2	all additional	271,990					$0.14825	$0.01106	$0.15931
13	32C Firm Sales1	Block 1	10,000	28,058,173	433	$3,856,093	$407,601	$675	$0.09877	$0.01101	$0.10978
14		Block 2	20,000	9,518,066					$0.08394	$0.00936	$0.09330
15		Block 3	20,000	1,350,409					$0.05928	$0.00661	$0.06589
16		Block 4	100,000	165,168					$0.03458	$0.00386	$0.03844
17		Block 5	600,000	-					$0.01978	$0.00000	$0.01978
18		Block 6	all additional	-					$0.00988	$0.00000	$0.00988
19	32I Firm Sales1	Block 1	10,000	5,409,612	62	$1,147,760	$94,748	$675	$0.09753	$0.00805	$0.10558
20		Block 2	20,000	5,816,515					$0.08291	$0.00684	$0.08975
21		Block 3	20,000	2,020,748					$0.05851	$0.00483	$0.06334
22		Block 4	100,000	376,157					$0.03415	$0.00282	$0.03697
23		Block 5	600,000	-					$0.01950	$0.00000	$0.01950
24		Block 6	all additional	-					$0.00980	$0.00000	$0.00980
25	32 Firm Trans	Block 1	10,000	14,881,729	178	$4,592,829	$342,970	$925	$0.09698	$0.00724	$0.10422
26		Block 2	20,000	16,126,373					$0.08241	$0.00615	$0.08856
27		Block 3	20,000	10,000,748					$0.05820	$0.00435	$0.06255
28		Block 4	100,000	20,036,765					$0.03395	$0.00254	$0.03649
29		Block 5	600,000	25,692,026					$0.01939	$0.00145	$0.02084
30		Block 6	all additional	5,784,825					$0.00973	$0.00073	$0.01046
31	32C Interr Sales	Block 1	10,000	5,114,441	58	$1,524,771	$100,334	$675	$0.10055	$0.00661	$0.10716
32		Block 2	20,000	6,268,233					$0.08547	$0.00561	$0.09108
33		Block 3	20,000	3,312,192					$0.06033	$0.00397	$0.06430
34		Block 4	100,000	6,448,719					$0.03520	$0.00232	$0.03752
35		Block 5	600,000	2,385,488					$0.02010	$0.00132	$0.02142
36		Block 6	all additional	-					$0.01009	$0.00000	$0.01009
37	32I Interr Sales	Block 1	10,000	6,003,909	68	$1,786,192	$115,869	$675	$0.10033	$0.00651	$0.10684
38		Block 2	20,000	7,358,560					$0.08530	$0.00553	$0.09083
39		Block 3	20,000	3,688,225					$0.06021	$0.00391	$0.06412
40		Block 4	100,000	7,570,296					$0.03512	$0.00228	$0.03740
41		Block 5	600,000	2,802,356					$0.02006	$0.00130	$0.02136
42		Block 6	all additional	-					$0.01005	$0.00000	$0.01005
43	32 Interr Trans	Block 1	10,000	7,385,146	85	$5,251,084	$284,792	$925	$0.09816	$0.00532	$0.10348
44		Block 2	20,000	12,638,682					$0.08344	$0.00453	$0.08797
45		Block 3	20,000	9,591,680					$0.05891	$0.00319	$0.06210
46		Block 4	100,000	30,167,941					$0.03436	$0.00186	$0.03622
47		Block 5	600,000	53,015,711					$0.01965	$0.00107	$0.02072
48		Block 6	all additional	84,168,292					$0.00984	$0.00053	$0.01037
49	33		N/A			$0	$0	$38,000	$0.00566	$0.00000	$0.00566
				994,600,661			$16,000,000				

Average Monthly (margin) Bill Impact

Line No.	Average Annual Usage	Average Monthly Usage	Monthly Bill @ Current Rates	Monthly Bill @ Proposed Rates	% Bill Increase
1	635.7	52.97	$ 53	$ 54.20	2.8%
2	2,857.9	238	$ 194	$ 199	2.4%
3	13,731	1,144	$ 865	$ 884	2.2%
4	610	51	$ 44	$ 45	2.9%
5	34,445	2,870	$ 2,070	$ 2,114	2.1%
7	47,251	3,938	$ 1,259	$ 1,317	4.6%
9	64,565	5,380	$ 3,329	$ 3,385	1.7%
11	72,714	6,059	$ 1,505	$ 1,574	4.6%
13	90,637	7,553	$ 4,439	$ 4,522	1.9%
19	222,954	18,579	$ 9,788	$ 9,925	1.4%
25	520,913	43,409	$ 4,323	$ 4,577	5.9%
31	405,674	33,806	$ 11,677	$ 11,870	1.4%
37	406,192	33,849	$ 13,686	$ 13,877	1.4%
43	2,317,264	193,105	$ 9,037	$ 9,476	4.9%
49	-	-	-	-	0.0%

Current Rates Detail / Check

Line No.	Current Base Margin	Pipeline Capacity	Commodity	Current Total Volumetric Rate	Total Revenue	Incremental RR
1	0.44470	0.11588	0.28370	0.84428	$ 240,184,355	$ 10,696,701
2	0.35442	0.11588	0.28370	0.75400	$ 72,812,599	$ 3,264,310
3	0.34312	0.11588	0.28370	0.74270	$ 1,818,251	$ 81,841
4	0.33841	0.11588	0.28370	0.73799	$ 572,155	$ 25,605
5	0.21386	0.11588	0.28370	0.61344	$ 8,466,336	$ 201,100
6	0.19546	0.11588	0.28370	0.59504		$ 181,268
7	0.18122	-		0.18122	$ 1,164,845	$ 23,454
8	0.16570	-		0.16570		$ 27,755
9	0.16888	0.11588	0.28370	0.56846	$ 3,200,975	$ 48,193
10	0.15261	0.11588	0.28370	0.55219		$ 98,371
11	0.16403	-		0.16403	$ 93,973	$ 1,121
12	0.14825	-		0.14825		$ 3,008
13	0.09877	0.11588	0.28370	0.49835	$ 7,570,927	$ 308,920
14	0.08394	0.11588	0.28370	0.48352		$ 89,089
15	0.05928	0.11588	0.28370	0.45886		$ 8,926
16	0.03458	0.11588	0.28370	0.43416		$ 641
17	0.01978	0.11588	0.28370	0.41936		$ -
18	0.00988	0.11588	0.28370	0.40946		$ -
19	0.09753	0.11588	0.28370	0.49711	$ 1,744,677	$ 43,547
20	0.08291	0.11588	0.28370	0.48249		$ 39,785
21	0.05851	0.11588	0.28370	0.45809		$ 9,760
22	0.03415	0.11588	0.28370	0.43373		$ 1,615
23	0.01950	0.11588	0.28370	0.41908		$ -
24	0.00980	0.11588	0.28370	0.40938		$ -
25	0.09698	-		0.09698	$ 6,911,715	$ 107,744
26	0.08241	-		0.08241		$ 99,177
27	0.05820	-		0.05820		$ 43,503
28	0.03395	-		0.03395		$ 50,898
29	0.01939	-		0.01939		$ 37,543
30	0.00973	-		0.00973		$ 4,223
31	0.10055	0.01379	0.28370	0.39804	$ 2,094,864	$ 33,806
32	0.08547	0.01379	0.28370	0.38296		$ 35,237
33	0.06033	0.01379	0.28370	0.35782		$ 13,149
34	0.03520	0.01379	0.28370	0.33269		$ 14,961
35	0.02010	0.01379	0.28370	0.31759		$ 3,149
36	0.01009	0.01379	0.28370	0.30758		$ -
37	0.10033	0.01379	0.28370	0.39782	$ 2,452,673	$ 39,085
38	0.08530	0.01379	0.28370	0.38279		$ 40,692
39	0.06021	0.01379	0.28370	0.35770		$ 15,203
40	0.03512	0.01379	0.28370	0.33261		$ 17,260
41	0.02006	0.01379	0.28370	0.31755		$ 3,640
42	0.01005	0.01379	0.28370	0.30754		$ -
43	0.09816	-	-	0.09816	$ 6,479,172	$ 39,289
44	0.08344	-	-	0.08344		$ 57,253
45	0.05891	-	-	0.05891		$ 30,597
46	0.03436	-	-	0.03436		$ 56,112
47	0.01965	-	-	0.01965		$ 56,727
48	0.00984	-	-	0.00984		$ 44,909
49	0.00566	-	-	0.00566	$ -	$ -

	Margin	Incremental Margin
Total	$ 355,567,715	$ 15,993,874
Total w/MDDV & Rev Sens Revenue	$ 365,972,576	

	Firm	Interruptible	WACOG
Demand & Commodity w	0.11921	0.01419	0.29186
Delta (Rev Sens only)	0.00333	0.00040	0.00816
Rev Sens Revenue	$ 2,164,169	$ 20,460	$ 5,720,573
MDDV Revenue	$ 2,499,659		

Rate Schedule	Revenue Req. Increase	% Increase to Avg. Cust. Bill	$ Increase to Avg. Cust. Bill
2R	$ 10,696,958	2.88%	$ 1.48
3C Firm Sales	$ 3,265,092	2.40%	$ 4.66
3I Firm Sales	$ 81,855	2.22%	$ 19.21
31C Firm Sales	$ 382,345	2.12%	$ 49.98
31I Firm Sales	$ 146,530	1.70%	$ 56.66
32C Firm Sales	$ 407,601	1.87%	$ 83.16
32I Firm Sales	$ 94,748	1.42%	$ 139.19

NW Natural
Oregon Jurisdictional Rate Case
Test Year Twelve Months Ended October 31, 2019

APPENDIX B - UG 344 STIPULATION

Proposed Rate Spread Summary

Line No.		CUSTOMER CLASS / SERVICE TYPE / RATE SCHEDULE	Residential Sales Firm 02	Commercial Sales Firm 03CSF	Industrial Sales Firm 03ISF	Commercial Sales Firm 27CSF	Commercial Sales Firm 31CSF	Commercial Transportation Firm 31CTF	Industrial Sales Firm 31ISF	Industrial Transportation Firm 31ITF
		Oregon Total								
1	Current Revenue	$624,873,692	$387,770,097	$137,975,522	$3,740,132	$1,038,854	$18,521,031	$1,113,636	$8,813,710	$89,844
2	Current Margin	$348,020,183	$232,672,334	$71,019,860	$1,780,460	$556,990	$8,316,491	$1,113,636	$3,187,208	$89,844
3	% of Current Margin (@ current rates)	100.00%	66.86%	20.41%	0.51%	0.16%	2.39%	0.32%	0.92%	0.03%
4	Incremental Increase to Revenue Requirement	$16,000,000								
5	% Increase to Current Revenue	2.56%								
6	Proposed Revenue Increase	$16,000,000	$10,696,958	$3,265,092	$81,855	$25,607	$382,345	$51,199	$146,530	$4,131
8	Proposed Revenue	$640,873,692	$398,467,055	$141,240,613	$3,821,987	$1,064,461	$18,903,376	$1,164,835	$8,960,240	$93,975
9	Proposed Margin	$364,020,183	$243,369,292	$74,284,951	$1,862,316	$582,597	$8,698,836	$1,164,835	$3,333,738	$93,975

Line No.		Commercial Sales Firm 32 CSF	Industrial Sales Firm 32ISF	Transportation Firm 32TF	Commercial Sales Interruptible 32CSI	Industrial Sales Interruptible 32ISI	Transportation Interruptible 32TI	Transportation 33T	Special Contracts
1	Current Revenue	$24,565,050	$7,608,655	$7,460,021	$9,271,906	$10,710,650	$6,194,584	$0	$1,788,868
2	Current Margin	$8,865,834	$2,060,888	$7,460,021	$2,181,744	$2,520,290	$6,194,584	$0	$1,788,868
3	% of Current Margin (@ current rates)	2.55%	0.59%	2.14%	0.63%	0.72%	1.78%	0.00%	0.51%
4	Incremental Increase to Revenue Requirement								
5	% Increase to Current Revenue								
6	Proposed Revenue Increase	$407,601	$94,748	$342,970	$100,304	$115,869	$284,792	$0	$0
8	Proposed Revenue	$24,972,651	$7,703,403	$7,802,991	$9,372,210	$10,826,519	$6,479,376	$0	$0
9	Proposed Margin	$9,273,435	$2,155,636	$7,802,991	$2,282,048	$2,636,159	$6,479,376	$0	$0

ORDER NO. 18 419

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 344

In the Matter of NW NATURAL GAS COMPANY D/B/A NW NATURAL Request for a General Rate Revision.	**SECOND PARTIAL STIPULATION**

I. INTRODUCTION

The purpose of this Stipulation is to resolve issues among NW Natural Gas Company d/b/a NW Natural (NW Natural or the Company), Staff of the Public Utility Commission of Oregon (Staff), and the Oregon Citizens' Utility Board (CUB) (collectively, the Stipulating Parties) in Docket No. UG 344, NW Natural's Request for a General Rate Revision. The Stipulating Parties previously filed a Stipulation on August 6, 2018 (First Stipulation) that included Associated Western Energy Customers (AWEC) resolving all but three issues in the docket. This Stipulation (Second Stipulation) resolves two of the remaining three issues in the docket. Specifically, the Second Stipulation resolves the issues related to the Company's Pension Balancing Account ("PBA") and the unresolved impacts of the 2017 federal Tax Cuts and Jobs Act (TCJA) (including the impacts on the Company's accumulated deferred income tax and the Company's tax expense during the time period leading up to the rate effective date). The Stipulating Parties have not resolved the issues related to NW Natural's sharing of revenues produced by optimization of certain NW Natural assets and the Company's Interstate Storage operations, and will be briefing those issues in accordance with the briefing schedule set forth in the Prehearing Conference Memorandum issued February 2, 2018.

II. BACKGROUND

On December 29, 2017, NW Natural filed a request for a general rate increase and revised tariff sheets to become effective November 1, 2018 (the Initial Filing), which was docketed as Docket No. UG 344. The Company's Initial Filing requested a revision to customer rates that would increase the Company's annual Oregon jurisdictional revenues by $52.4 million (or $40.38 million after the adjustment for decoupling is considered), or an increase of approximately 8.3 percent over current customer rates. On December 29, 2017, both Staff and NW Natural filed applications to defer certain tax expense associated with the 2018 US Tax Cuts and Jobs Act. NW Natural's application was docketed as Docket No. UM 1919 and Staff's application was docketed as Docket No. UM 1924. Administrative Law Judge Allan J. Arlow convened a prehearing conference for Docket No. UG 344 on February 1, 2018. On March 20, 2018, the Company filed supplemental direct testimony regarding updates to the test year and revenue requirement that accounted for the impacts of the 2017 federal Tax Cuts and Jobs Act to the rate case's forecasted Test Year and revised the application of the depreciation study approved by the Commission on January 5, 2018 in Docket No. UM 1808 (the Supplemental Filing). The impact of these revisions was to reduce the requested revenue requirement to $37.8 million (or $25.7 million after the consideration for decoupling).

On April 20, 2018, Staff, CUB, and AWEC filed opening testimony proposing various adjustments to NW Natural's Initial Filing. The parties convened an initial settlement conference on April 30, 2018. NW Natural filed its reply testimony on May 23, 2018. In its reply testimony (Reply Filing), the Company provided corrections and updates to its Initial Filing and responded to the testimony of Staff, CUB, and AWEC. The Stipulating Parties convened settlement conferences on May 30-31, 2018 and June 12, 2018. As a result of those discussions, the Stipulating Parties and AWEC reached a settlement of the issues presented in the First Stipulation, filed on August 6, 2018.

On July 19, 2018, the Stipulating Parties and AWEC convened settlement discussions on two of the three remaining issues in the docket. The Stipulating Parties met again on August 27, 2018. AWEC was invited to participate but chose to not join this conference. As a result of the discussions held on July 19 and August 27, the Stipulating Parties have agreed to the Second Stipulation. AWEC does not join in the Second Stipulation.

III. TERMS OF AGREEMENT

The Stipulation resolves the issues addressed below:

1. Impacts of Tax Reform. The Stipulating parties agree that NW Natural properly recorded the remeasurement of regulated utility excess deferred income taxes ("EDIT") as a result of the TCJA. Specifically NW Natural recorded a remeasurement of regulated utility deferred income taxes of $156.8 million on a system-wide basis. The figure is comprised of balances related to Plant, Other Non-Plant, and Non-Plant Gas Reserves in the amounts of $140.62 million, $5.50 million, and $10.80 million, respectively. The sum of these figures, grossed up for income taxes, equals $213.30 million. These amounts, and the allocation for Oregon, are included in Exhibit A to the Second Stipulation.

2. NW Natural will return to customers EDIT (Plant) subject to the average rate assumption method ("ARAM") in the amount of $3.26 million per year in base rates beginning on the rate effective date.

3. NW Natural will return to sales customers $14.64 million of EDIT (Non-Plant Gas Reserves), inclusive of a gross up for income taxes, over five years through a separate tariff rider.

4. NW Natural will credit to customers $6.67 million of EDIT (Other Non-Plant) as an offset to the PBA as described in Paragraph 10 of this Second Stipulation.

5. Effective on the rate effective date, rate base will be increased by $22.15 million to reflect the EDIT being provided to customers as part of the Second Stipulation. This increase to rate base results in a $2.06 million increase to revenue requirement.

6. In the Company's next general rate case, or five years from the date of the rate effective date, whichever is sooner, the amount of EDIT subject to ARAM being amortized will be reviewed and adjusted as appropriate based on the remaining balance of the EDIT and normalization requirements under ARAM. In the event that an adjustment to the amortization of EDIT occurs outside of a general rate case, the adjustment would be made through a separate tariff rider, and rate base would not be adjusted until the Company's next general rate case.

7. NW Natural agrees to forego any sharing of deferred amounts that it would otherwise be allowed to recover under any earnings review the Commission applies before amortization of amounts in the Interim Period Tax Deferral and the EDIT in the TCJA Deferral Dockets (Docket Nos. UM 1919 and 1924).

8. The Stipulating Parties agree that all issues related to NW Natural's and Staff's deferrals associated with the impacts of the TCJA in Docket Nos. UM 1919 and 1924 (the "TCJA Deferral Dockets"), respectively, are resolved by the Second Stipulation. After approval of the Second Stipulation, the Stipulating Parties will jointly request to the Commission that the TCJA Deferral Dockets be resolved in accordance with the terms of this Second Stipulation. The Stipulating Parties will also jointly request that any amounts deferred in Docket Nos. UM 1919 and UM 1924 be amortized in accordance with the terms of the Second Stipulation.

9. <u>Pension Balancing Account</u>. The Stipulating Parties agree that NW Natural will "freeze" the PBA as of October 31, 2018, meaning that NW Natural will no longer book

FAS 87 expense – net of the $3.80 million of FAS 87 authorized expense collected annually in rates pursuant to the PBA Stipulation – to the Pension Balancing Account.

10. Effective on November 1, 2018 (the "rate effective date"), NW Natural will reduce the balance in the PBA by:

a. Applying $5.9 million of amounts deferred in the Interim Period Tax Deferral, plus interest, as an offset to the balance in the PBA; and

b. Applying the $6.7 million of EDIT (Other Non-Plant) as an offset to the balance in the PBA.

11. Beginning on the rate effective date, NW Natural will amortize the balance of the PBA over a ten year period by collecting $8.2 million per year from all customers through a separate tariff rider. NW Natural agrees that it will amortize no more than this amount for the PBA.

12. Effective on the rate effective date, NW Natural will recover the test year FAS 87 pension expense in base rates. This results in an increase of $8.1 million to NW Natural's revenue requirement.

13. The Stipulating Parties request that the Commission find that this Second Stipulation supersedes the PBA Stipulation ordered in Docket UM 1475, Order No 11-051.

14. <u>General Terms.</u> The Stipulating Parties recommend and request that the Commission approve the adjustments and provisions described herein as appropriate and reasonable resolutions of the identified issues in this docket.

15. The Stipulating Parties agree that this Stipulation is in the public interest, and will result in rates that are fair, just and reasonable, consistent with the standard in ORS 756.040.

16. This Stipulation will be offered into the record as evidence pursuant to OAR 860-001-350(7). The Stipulating Parties agree to support this Stipulation throughout this

proceeding and any appeal, provide witnesses to sponsor this Stipulation at hearing, and recommend that the Commission issue an order adopting the Stipulation. The Stipulating Parties also agree to cooperate in drafting and submitting joint testimony or a brief in support of the Stipulation in accordance with OAR 860-001-0350(7).

17. If this Stipulation is challenged, the Stipulating Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation. The Stipulating Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented.

18. The Stipulating Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any of the Stipulating Parties are entitled to withdraw from the Stipulation or exercise any other rights provided in OAR 860-001-0350(9). To withdraw from the Stipulation, a Stipulating Party must provide written notice to the Commission and other Stipulating Parties within five days of service of the final order rejecting, modifying or conditioning this Stipulation.

19. By entering into this Stipulation, no Stipulating Party approves, admits, or consents to the facts, principles, methods, or theories employed by any other Stipulating Party in arriving at the terms of this Stipulation, other than those specifically identified in the body of this Stipulation. No Stipulating Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as specifically identified in this Stipulation.

20. This Stipulation is not enforceable by any Stipulating Party unless and until adopted by the Commission in a final order. Each signatory to this Stipulation avers that

they are signing this Stipulation in good faith and that they intend to abide by the terms of this Stipulation unless and until the Stipulation is rejected or adopted only in part by the Commission. The Stipulating Parties agree that the Commission has exclusive jurisdiction to enforce or modify the Stipulation. If the Commission rejects or modifies this Stipulation, the Stipulating Parties reserve the right to seek reconsideration or rehearing of the Commission order under ORS 756.561 and OAR 860-001-0720 or to appeal the Commission order under ORS 756.610.

21. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Stipulating Party on the date entered below such Stipulating Party's signature.

DATED this 7 day of Sept., 2018.

NW NATURAL COMPANY D/B/A NW NATURAL

By: [signature]

Date: Sept 7 2018

STAFF OF PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

OREGON CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

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DATED this 7th day of September, 2018.

NW NATURAL COMPANY D/B/A NW NATURAL

By: ______________________

Date: ______________________

STAFF OF PUBLIC UTILITY COMMISSION OF OREGON

By: [signature] for S. Andrus

Date: 9/7/2018

OREGON CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

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DATED this 7th day of Sept., 2018.

NW NATURAL COMPANY D/B/A NW NATURAL	STAFF OF PUBLIC UTILITY COMMISSION OF OREGON
By: ______________________	By: ______________________
Date: ______________________	Date: ______________________

OREGON CITIZENS' UTILITY BOARD

By: [signature]

Date: 9/7/18

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UG 344

SECOND PARTIAL STIPULATION

Exhibit A

September 7, 2018

	System Wide Deferred Tax Remeasurement		Gross Up Factor		Excess Deferred Income Tax (EDIT) Liability		Oregon Allocation		Oregon Allocated EDIT
Plant	$ 140,619	x	1.36	=	$ 191,242	x	90%	=	$ 172,118
Non-Plant - Other	5,450	x	1.36	=	7,412	x	90%	=	6,671
Non - Plant - Gas Reserves	10,767	x	1.36	=	14,643	x	100%	=	14,643
	$ 156,836				$ 213,297				$ 193,432

	Oregon Allocated EDIT	Applied in Settlement: Immediately	Year 1	Year 2	Year 3	Year 4	Year 5
Plant	$ 172,118	$ -	$ 3,263	$ 3,263	$ 3,263	$ 3,263	$ 3,263
Non-Plant - Other	6,671	6,671	-	-	-	-	-
Non - Plant - Gas Reserves	14,643	-	2,929	2,929	2,929	2,929	2,929
	$ 193,432	$ 6,671	$ 6,192	$ 6,192	$ 6,192	$ 6,192	$ 6,192

NW Natural
UG 344
Twelve Months Ended October 31, 2019
(000)

	SUMMARY SHEET	2017 Results Per Company Filing at Present Rates (1)	(2)	2019 Results Per Company Filing (3)	Company Filed Required Change for Reasonable Return (4)	Company Filed 2019 Results at Reasonable Return (5)	Adjustments to Company 2019 Results (6)	Adjusted 2019 Company Results (3) + (6) (7)	Required Change for Reasonable Return (8)	Results at Reasonable Return (7) + (8) (9)
1	**Operating Revenues**									
2	General Business	637,346	(27,330)	610,016	37,816	647,831	-	610,016	23,427	633,443
3	Transportation	17,390	(743)	16,647	-	16,647	-	16,647	-	16,647
4	Decoupling	11,599	(11,599)	-	-	-	-	-	-	-
5	WARM	(16,622)	16,622	-	-	-	-	-	-	-
6	Miscellaneous Revenues	3,564	(138)	3,426	-	3,426	70	3,496	-	3,496
7	Total Operating Revenues	653,277	(23,189)	630,089	37,816	667,904	70	630,159	23,427	653,586
8	**Operating Expenses**									
9	Gas Purchased	291,761	(14,907)	276,854	-	276,854	-	276,854	-	276,854
10	Transmission & Storage	7,428	(111)	7,317	-	7,317	(16)	7,301	-	7,301
11	Distribution	47,904	(355)	47,549	-	47,549	(240)	47,309	-	47,309
12	Customer Accounts	19,047	(855)	18,191	-	18,191	-	18,191	-	18,191
13	Customer Service	4,817	(301)	4,516	-	4,516	(100)	4,416	-	4,416
14	Sales	4,229	73	4,302	-	4,302	-	4,302	-	4,302
15	OPUC Fees	1,960	(70)	1,890	113	2,004	0	1,890	70	1,961
16	Franchise Fees	15,483	(550)	14,933	896	15,829	2	14,935	555	15,490
17	Uncollectibles	716	(7)	710	43	753	0	710	27	736
18	General Operations & Maintenance	3,916	539	4,456	-	4,456	-	4,456	-	4,456
19	Admin & General Expenses	44,003	13,115	57,118	-	57,118	(2,464)	54,654	-	54,654
20	Environmental Rider	5,000	-	5,000	-	5,000		5,000	-	5,000
21	Total Operation & Maintenance	446,263	(3,427)	442,836	1,053	443,889	(2,818)	440,018	652	440,670
22	Depreciation & Amortization	71,362	5,009	76,371	-	76,371	(1,963)	74,408	-	74,408
23	Taxes Other than Income	26,214	2,337	28,551	-	28,551	(353)	28,198	-	28,198
24	Equity Floatation		1,198	1,198	-	1,198	(1,198)	-	-	-
25	Income Taxes	35,096	(19,660)	15,435.6727	9,927	25,363	1,915	17,350	6,150	23,500
26	Total Operating Expenses	578,935	(14,544)	564,392	10,980	575,372	(4,418)	559,974	6,802	566,776
27	Net Operating Revenues	74,342	(8,645)	65,697	26,836	92,532	4,488	70,185	16,625	86,810
28	**Average Rate Base**									
29	Utility Plant in Service	2,576,151	13,674	2,831,198	-	2,831,198	(62,025)	2,769,173	-	2,769,173
30	Less: Accumulated Depreciation & Amortization	(1,143,047)	(6,365)	(1,244,909)	-	(1,244,909)	32,786	(1,212,123)	-	(1,212,123)
31	Accumulated Deferred Income Taxes	(396,737)	(70)	(409,841)	-	(409,841)	1,048	(408,793)	-	(408,793)
32	Accumulated Deferred Inv. Tax Credit		-	-	-	-	-	-	-	-
33	Net Utility Plant	1,036,366	7,238	1,176,449	-	1,176,449	(28,191)	1,148,257	-	1,148,257
34	Plant Held for Future Use	-	-	-	-	-	-	-	-	-
35	Other Rate Base		-	-	-	-	-	-	-	-
36	Aid in Advance of Construction	(3,298)	(179)	(3,476)	-	(3,476)	-	(3,476)	-	(3,476)
37	Customer Deposits	(4,189)	340	(3,849)	-	(3,849)	(291)	(4,140)	-	(4,140)
38	Gas Inventory	54,775	(19,402)	35,373	-	35,373	-	35,373	-	35,373
39	Materials & Supplies	9,087	1,312	10,399	-	10,399	-	10,399	-	10,399
40	Weatherization Loans	-	-	-	-	-	-	-	-	-
41	Prepayments	-	-	-	-	-	-	-	-	-
42	Misc. Deferred Debits & Credits	-	-	-	-	-	-	-	-	-
43	Misc. Rate Base Additions/(Deductions)	-	-	-	-	-	-	-	-	-
44	Total Average Rate Base	1,092,742	122,154	1,214,895	-	1,214,895	(28,482)	1,186,413	-	1,186,413
45	**Rate of Return**	6.803%		5.408%		7.616%		5.916%		7.317%
46	**Implied Return on Equity**	5.582%		5.582%		10.000%		6.597%		9.400%