NW Natural®

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November 6, 2026

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

Re: NW Natural's Application for an Accounting Order Regarding Proposed Hybrid Heating Program

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), files herewith an application for an accounting order authorizing the Company to classify and record as capital the costs associated with its proposed Schedule 354, Hybrid Heating Program.

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

eFiling
Rates & Regulatory Affairs
NW Natural
250 SW Taylor Street
Portland, Oregon 97204
Telecopier: (503) 220-2579
Phone: (503) 610-7330
eFiling@nwnatural.com

If you have any questions, please contact me at (503) 610-7051.

Sincerely,

/s/ Kyle Walker

Kyle Walker, CPA
Senior Manager of Rates/Regulatory Affairs

Enclosures

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

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In the Matter of NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL Application For Accounting Order Regarding the Hybrid Heating Program	**APPLICATION FOR ACCOUNTING ORDER**

Northwest Natural Gas Company, d/b/a NW Natural ("NW Natural" or the "Company"), respectfully requests that the Public Utility Commission of Oregon ("Commission") issue an accounting order authorizing the Company to classify and record as capital the costs associated with its proposed Schedule 354, Hybrid Heating Program, ("Schedule 354") pursuant to ORS 757.120 and ORS 757.125.

Hybrid heating is when an electric air source heat pump[1] is paired with a natural gas furnace in a single, integrated heating and cooling system. The heat pump provides air conditioning in summer, as well as space heating during milder weather, while the gas furnace provides heat during colder conditions. NW Natural has made a separate tariff filing seeking Commission approval of Schedule 354 concurrently with this filing. This separate tariff filing explains the Company's proposed hybrid heating program in detail, including how hybrid heating can address

[1] NW Natural also recognizes that other types of heat pumps could be paired with a natural gas furnace, such as geothermal. However, Schedule 354 is focused on air source heat pumps, which are the most common type of heat pump in the Company's service territory.

existing resource adequacy issues on the electric grid while helping NW Natural comply with the Climate Protection Program ("CPP") and lowering customer bills.

In this application ("Application"), the Company's request is narrow. NW Natural does not seek a prudence determination, a revenue requirement, or recovery of any amount in customer rates in this docket. The Company seeks only to determine the account in which these costs are properly recorded, so that it may implement Schedule 354 on a known accounting basis. Recovery of the asset will be proposed in a separate proceeding at a future time. Specifically, NW Natural is seeking to classify and record the costs associated with Schedule 354 as capital that will allow the Company to recover the program's costs over a 25-year period.[2] This treatment will:

- Reduce the program's near-term rate impact on customers;
- Better align cost recovery with the period where both customers and the overall energy system benefit from investments in hybrid heating; and
- Incentivize NW Natural to pursue creative solutions that address not only issues facing the Company, such as compliance with the CPP, but also address issues facing the broader energy system, such as resource adequacy and affordability.

[2] Any such recovery would be subject to the Company demonstrating that the costs it has incurred are prudent. As stated above, NW Natural is not seeking to recover any costs in this docket.

Notice of this Application has been served on all parties who participated in the Company's last general rate case, Docket No. UG 520. A copy of that notice is attached to this Application. Communications regarding this Application should be addressed to:

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and

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I. BACKGROUND

NW Natural's proposed Schedule 354 would establish a voluntary residential hybrid heating program that provides a one-time $3,500 incentive to homeowners and homebuilders who install a ducted air-source heat pump with a natural gas furnace serving colder-weather heating needs. Schedule 354 is a direct result of NW Natural's 2025 Integrated Resource Plan ("IRP"). Specifically, the IRP's long-term resource strategy included Action Item A-18, under which "NW Natural will

develop programs that promote the use of hybrid space heating systems," and its near-term action plan included Action Item B-17: "Develop a hybrid heating program providing cost effective emissions reduction incentives."

Schedule 354 is a significant step in meeting these Action Items. It is a program that can be implemented relatively quickly, providing immediate benefits to both NW Natural's customers and the overall energy system. Schedule 354, however, is just the beginning. Pursuant to Commission direction in the Company's 2025 IRP, NW Natural continues to work with the Energy Trust of Oregon ("ETO") on developing a companion program to Schedule 354 that further incentivizes hybrid heating.[3] The ETO program will take additional time to develop, as it involves close coordination with electric utilities, and a hybrid heating measure was not included as a specific activity in the ETO's Multi-Year Plan or Utility Specific Action Plan.

In comparison, Schedule 354 can be implemented shortly after the Commission approves it, and is appropriately scaled to be the next logical step in developing hybrid heating. The Company has already successfully completed small scale pilots[4] and anticipates that Schedule 354 will inform other permanent hybrid heating initiatives, such as the ETO program that is currently in development.

[3] *In the Matter of Northwest Natural Gas Co., dba NW Natural, 2025 Integrated Resource Plan*, Docket No. LC 86, Order No. 26-150 (Apr. 30, 2026).
[4] These pilots include: 1) the Energy Trust Dual-Fuel Pilot, 2) Northwest Energy Efficiency Alliance ("NEEA") Clark County (WA) Dual-Fuel Pilot, and 3) a hybrid heating pilot through the Company's Oregon Low Income Energy Efficiency program.

II. APPLICATION

ORS 757.125 authorizes the Commission to "prescribe the accounts and records required to be kept, and every public utility is required to keep and render its accounts . . ." ORS 757.120 provides complementary authority with respect to the Commission's oversight of utility accounting practices. The relief requested falls squarely within the Commission's ordinary accounting authority.

In this Application, NW Natural requests an accounting order authorizing the Company to record the following categories of hybrid heating costs as capital:

(a) incentive payments made to participating customers;

(b) costs of designing, developing, and implementing the targeted programs, including program administration and marketing, outreach, and engagement; and

(c) costs of measuring, verifying, and evaluating the program, including participation and conversion rates, actual natural gas and electric usage where available, calculated emissions reductions, customer bill impacts, as well as any other analysis that is subsequently determined to be necessary.

As stated above, NW Natural is seeking to classify and record the costs associated with Schedule 354 as capital in order to give it the opportunity to recover such costs over a 25-year period. This will reduce the program's near-term rate impact on customers, better align cost recovery with the period where both customers and the overall energy system benefit from investments in hybrid heating, and incentivize NW Natural to pursue solutions that benefit not just its customers but the energy system as a whole.

A. Capitalization lowers the near-term rate impact on customers

NW Natural's proposal to capitalize costs associated with its hybrid heating program will mitigate the near-term rate impact on customers. Because expensed costs must be recovered in the year incurred, an expense-based program faces a practical customer impact: the incentive that can be offered in any single year is limited by the single-year rate impact it creates. Capitalizing the incentives, on the other hand, will allow NW Natural to offer hybrid heating incentives without creating a large single-year rate impact. Rather, the rate impact will be spread out over 25 years, reducing near-term rate impact on customers.

B. Capitalization results in better alignment of costs and benefits

Capitalization aligns cost recovery with the period over which participating customers receive the benefit of the hybrid heating incentive. If these costs were expensed in a single year, the costs would be concentrated in that timeframe, even though hybrid heating provides benefits to both the gas and the electric system over many years. By granting the Company's request for an accounting order, the Commission would recognize that hybrid heating provides long-lasting benefits to customers and the overall energy system.

Capitalization is also the more equitable outcome. Since hybrid heating produces benefits for customers for years after its installation, recovering the full cost in a single year would require today's customers to fund a benefit that tomorrow's customers will receive.

C. Capitalization aligns the Company's incentives with Commission direction

NW Natural developed Schedule 354 in response to Commission direction to further develop hybrid heating programs. In its report on NW Natural's 2025 IRP, Staff stated that it "sees progress on the Company's hybrid heating pilots as a top priority."[5] Staff also stated that hybrid heating and joint system planning are a "part of a critical path" toward a more affordable approach to meeting load, capacity, and compliance needs, and observed that hybrid heat pump configurations already "exist in tens of thousands of NW Natural customer homes today," such that "[t]here is limited technology risk in deploying."[6]

Incentivizing NW Natural to pursue hybrid heating addresses not only issues facing the Company, such as compliance with the CPP, but also issues facing the broader energy system, such as resource adequacy and affordability. An E3 study sponsored by the region's electric utilities found that there is a "resource gap that grows to 9 GW of effective capacity by 2030 and 14-18 GW by 2035."[7] This resource gap results in the Pacific Northwest "fac[ing] a multi-day reliability challenge driven by cold snaps and low hydro conditions,"[8] which are the precise conditions where hybrid heating is the most valuable. By incentivizing NW Natural to pursue hybrid heating where space heating load would be served by a gas furnace

[5] *In the Matter of Northwest Natural Gas Co., dba NW Natural, 2025 Integrated Resource Plan*, Docket No. LC 86, Order No. 26-150, Appendix A at 7 (Apr. 30, 2026).
[6] *In the Matter of Northwest Natural Gas Co., dba NW Natural, 2025 Integrated Resource Plan*, Docket No. LC 86, Order No. 26-150, Appendix A at 11, 22 (Apr. 30, 2026).
[7] https://www.ethree.com/wp-content/uploads/2026/04/E3-NW-RA-Final-Report_040826.pdf at 5.
[8] https://www.ethree.com/wp-content/uploads/2026/04/E3-NW-RA-Final-Report_040826.pdf at 14.

in colder weather, winter peaking on the electric system would be reduced, helping to address the ongoing resource adequacy issues.

In addition, Schedule 354 aligns resource adequacy and emissions reductions with affordability. Homeowners making heating and cooling decisions face equipment and energy cost considerations that do not always align with reducing emissions and promoting resource adequacy. The program is designed to close that affordability gap. It makes a residential hybrid heating option more economically accessible for customers who choose it while ensuring that participating customers continue to pay their proportionate share of fixed system costs.

III. CONCLUSION

NW Natural respectfully requests that the Commission issue an accounting order that classifies all costs associated with Schedule 354, Hybrid Heating Program, as capital expenditures.

Dated this 6th day of November 2026.

Respectfully Submitted,

NW NATURAL

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

/s/ Ryan Sigurdson
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NOTICE OF APPLICATION FOR AN ACCOUNTING ORDER REGARDING NW NATURAL'S PROPOSED HYBRID HEATING PROGRAM

November 6, 2026

To All Parties Who Participated in UG 520
Please be advised that on November 6, 2026, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for an accounting order authorizing the Company to classify and record as capital the costs associated with its proposed Schedule 354, Hybrid Heating Program.

This is not a rate case. The purpose of this Notice is to inform parties who participated in the Company's last general rate case, UG 520, that an accounting order application has been filed.

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

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

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
PO Box 1088
Salem, Oregon 97308-1088
Telephone: (503) 378-6678

Any person may submit to the Commission written comments on this matter within 25 days of the service of this notice.

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NW Natural

CERTIFICATE OF SERVICE
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I hereby certify that on November 6, 2026, I have served by electronic mail the foregoing NOTICE OF APPLICATION FOR AN ACCOUNTING ORDER REGARDING NW NATURAL'S PROPOSED HYBRID HEATING PROGRAM upon all parties of record for NW Natural's last general rate case, UG 520.

UG 520

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DATED November 6, 2026, in Troutdale, Oregon.

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