NW Natural®

250 SW Taylor Street
Portland, OR 97204

503-226-4211
nwnatural.com

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VIA ELECTRONIC FILING

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

Re: AR 676 - Rulemaking to Establish Multi-Year Rate Plan Framework (HB 3179 & SB 688 Implementation)

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), submits these comments on Staff's Electric and Gas O&M Concept v1, issued September 4, 2026 (the "Concept"), in Phase 2, Track 1 of this rulemaking. The Company appreciates Staff's synthesis of the Track 1 discussions and supports the Concept as a workable framework for how O&M expense should function within a multi-year rate plan ("MRP") index revenue cap formula.

The Concept's structure is well founded. Organizing O&M by cost characteristic asks the two key questions for setting long-term rates: whether a cost can be established meaningfully at filing, and whether the index accommodates its rate of change. Recognizing that a limited number of categories may function better under an alternative treatment reflects the operational reality described in the Track 1 pre-reads and workshops. And allowing the tool to be matched to the challenge, rather than prescribing a single pathway for each category, suits a framework being designed before any utility has filed under it.

A single theme runs through the Company's remaining positions: the more reliably costs are established at the outset, the better the plan works for everyone. Accurate going-in rates are what allow an MRP to deliver what it promises — rates set once, held steady across the term, and administered without repeated returns to the Commission. Every tool that resolves a cost at the time rates are set, whether a forward-looking test year, a known and measurable adjustment, a step adjustment, an index fitted to the cost it tracks, or a continued deferral, keeps that cost inside or alongside the plan and off the mid-cycle docket. Reopeners, Z-factors, and mid-term filings are useful safeguards and should remain available, but they are second-best: they draw on Staff, stakeholder, utility, and Commission resources, they introduce rate changes customers did not anticipate, and they address a variance only after it has

developed. A plan built on reliable front-end budgeting calls on them less often, and produces more predictable rates as a result.

The Company's positions are summarized in Table 1 and developed in the sections that follow, which address each element of the Concept in turn — the characteristic-based framework, going-in rates and labor, customer programs and comparable established deferrals, non-recurring start-up O&M, and principles for materiality thresholds.

Table 1. Summary of NW Natural's positions on Staff's O&M Concept v1

Element of Staff's Concept v1	NW Natural's position
Framework structure	**Support** — organizing O&M by cost characteristic directs the inquiry to what drives a cost.
Going-in rates	**Support** — a forward-looking test year, known and measurable adjustments, and step adjustments resolve costs at the outset and keep them inside the plan.
Labor	**Support** — contracted wages have outpaced broad inflation; a labor-specific index or a known and measurable adjustment addresses this once, at the outset.
Customer programs	**Refine** — these costs, and comparable established deferrals, should continue to be recovered outside the indexed cap, with the programs identified by Commission order.
Start-up O&M	**Support** — with deferral and amortization over a defined period added as a third pathway alongside the step adjustment and the capital funding mechanism.
Materiality thresholds	**Refine** — principles rather than numeric values at this stage, tested at the plan level as well as the category level and applied symmetrically.

Organizing O&M by Cost Characteristic Is the Right Framework

Inflation is a reasonable starting point for categories that generally move with the overall economy but is not a good fit for every cost. Some O&M changes are driven by known contracts, required work, inspection cycles, customer behavior, market pricing, or accounting treatment, and may move above or below inflation and be uneven from year to year. Staff's concept reaches the same conclusion through a characteristic-based lens, and the Company agrees that the relevant questions are whether the going-in level of a cost can be established meaningfully at the time of filing and whether the index reasonably accommodates that cost's rate of change.

In practical terms, this may mean that more than one index operates within the formula: a discrete, well-defined component such as labor could track an index that better reflects its driver, while the balance of O&M continues to move with the general index. Other tools fit other characteristics—a known and measurable adjustment for a scheduled inspection cycle, a step adjustment for a system that comes online mid-plan, and continued deferral for participation-driven program costs. Each of these keeps a

cost inside or alongside the plan and resolves it at the time rates are set rather than through a later reopener.

Accuracy in Going-In Rates Supports a Smoother Plan Term

That framing carries directly into how going-in rates are set. NW Natural supports maintaining Oregon's current approach in a general rate case—a forward-looking test year informed by historical actuals, normalized to remove non-recurring items, and adjusted for known and measurable changes. On the same reasoning, the Company supports Staff's allowance for forecasting and normalizing modestly fluctuating costs into going-in rates, and for step adjustments for mid-cycle costs subject to review. These are least-departure tools that improve budget accuracy without moving costs outside the plan, and they can be addressed within a record the parties are already developing. A known contract escalation or a scheduled inspection cycle is more efficiently resolved in the rate case than revisited in year three.

Labor is the clearest illustration, and NW Natural supports Staff's intent to evaluate alternative indices for labor in Track 2. Bargaining-unit wages are set by negotiated, arm's-length collective bargaining agreements and have outpaced broad inflation measures, and payroll is by far the largest single component of the Company's O&M. An index that systematically under-recovers contracted wage growth compounds across the plan term. A labor-specific index, or a known and measurable adjustment for contracted wages, addresses that exposure once, at the outset, through a targeted and auditable mechanism that keeps the cost inside the plan.

Customer Programs Should Continue to Be Recovered Through Deferrals

NW Natural is not seeking broad exceptions to the MRP scope. Certain discrete, policy-driven costs that already have a functioning, Commission-approved recovery mechanism should continue to be recovered in that manner. The Company supports Staff's clarification that limited exclusions may be considered for specific costs subject to Commission order, and reads customer programs as appropriate for that treatment. The customer programs the Company currently operates are listed below.

NW Natural Customer Programs

Schedule	Purpose / Program	Collected Via	Program Funds Go To
Schedule 310	Low-income bill pay assistance	PPC rate Schedule 301	OLGA (Oregon Low-Income Gas Assistance)
Schedule 320	Low-income energy efficiency	PPC rate Schedule 301	OLIEE (Oregon Low-Income Energy Efficiency)
Schedule 330	Bill discount program for income-qualifying customers	Schedule 335	Provides bill reduction based on income

Schedule 350	Energy efficiency programs (Residential & Commercial)	PPC rate Sched 301	Administered by ETO
Schedule 351	Thermostat rewards – demand response event incentive	Schedule 121	Bring Your Own Thermostat (BYOT) program
Schedule 360	Industrial DSM	Sched 188	Administered by ETO
Schedule 361	Transportation energy efficiency	Schedule 169	Administered in conjunction with ETO
Schedule D	Residential Arrearage Management Program (AMP)	Schedule 120	Income-eligible customers with past-due balances

**Programs shaded in light gray are ETO programs*

These programs advance policy objectives the Commission and the Legislature have established, including energy affordability, customer assistance, demand response, and energy efficiency. The costs of administering and delivering them—program administration, enrollment and customer support, vendor services, outreach, incentives, measurement and reporting, and related compliance—would otherwise be recorded as O&M expense. Today those costs are deferred and amortized annually based on amounts actually spent, which produces one-for-one recovery of prudently incurred costs and aligns recovery with actual program activity. Several considerations support continuing that treatment under an MRP.

- **Program spend is driven by participation rather than by budget discretion.** Enrollment rises and falls with economic conditions, outreach, and eligibility rules established outside the rate plan. A formulaic escalator applied to a participation-driven cost will be imprecise in both directions, for reasons unrelated to how well the utility manages its budget.

- **Indexing creates a disincentive to program growth.** Inside a fixed cap, every incremental enrollment consumes budget that must be absorbed elsewhere in O&M. The result is a structural misalignment: enrolling an additional eligible customer reduces funds available for other work, so successful outreach becomes a budget problem rather than a policy achievement. The tension is sharpest for the income-qualified programs, where growth is the express policy objective — OLGA bill payment assistance under Schedule 310, OLIEE low-income energy efficiency under Schedule 320, the bill discount program under Schedules 330 and 335, and the residential Arrearage Management Program under Schedule D. Each of these is designed to reach more eligible customers, and each becomes more expensive as it succeeds. Enrollment in the bill discount program and AMP also rises precisely when customers are under the most financial stress, so a fixed cap would constrain these programs at the moment they matter most. That places cost

containment in direct tension with the Commission's objective of expanding participation, and it is the opposite of the signal the framework should send.

- **Several of these programs are not administered by the Company at all**. Schedule 350 (residential and commercial energy efficiency), Schedule 361 (transportation energy efficiency), and Schedule 360 (industrial demand-side management) are administered by the Energy Trust of Oregon. For each, budgets, program design, measure offerings, and delivery are established through Energy Trust's own governance and Commission oversight, not through NW Natural's budgeting process. The Company collects the funding through the Schedule 301 public purpose charge and remits it; it does not set the spending level or control the pace at which it is deployed.

- **One-for-one recovery eliminates over- and under-collection.** Annual amortization of actual spend means customers pay exactly what the programs cost. An indexed cap would introduce over-collection in low-participation years and under-collection in high-participation years.

A reopener or other mid-cycle mechanism is a less comfortable fit. It operates retrospectively, addressing a variance once it has become material, so ordinary year-to-year participation swings would accumulate before they could be addressed—while the existing deferral mechanism handles the same variation as routine annual accounting. Staff's synthesis records general alignment that least-departure options should be considered first, and here the least-departure option is the structure already in place. If a framework pathway must be identified for these programs, the special Commission-determined exclusion is the more suitable one, and NW Natural asks that customer programs for each utility be expressly identified in a Commission order for that treatment at the outset, rather than in rule or case by case. For instance, the purchase gas adjustment process, calculation, and filings were carefully thought through in UM 1286 and each utility has similar filings – such a framework could work for customer programs that get recovered outside of the revenue cap.

NW Natural notes that Staff has already identified HB 2475 bill discounts, demand response and flex load, community solar administration, and certain community-based renewable energy activities as potentially appropriate to handle outside of scope until greater budget certainty is established. The Company's customer programs share the same defining features—policy-driven, externally administered, and participation-variable—and the Track 2 exclusion criteria should be written to capture them on the same rationale.

Non-Recurring Start-Up O&M Warrants a Defined Pathway

Where known contracts, required work volumes, inspection schedules, customer activity, market pricing, or accounting treatment provide better information at the time rates are set, that information should inform the going-in level of expense or a category-specific escalator that keeps the cost inside the plan.

Non-recurring start-up costs are the narrower case that may warrant separate treatment. A major IT implementation, for example, may carry training, vendor, and transition costs that cannot be capitalized and do not reflect the ongoing cost of operating the system once in service. The Company is supportive of Staff's direction in identifying pathways for these costs, including a mid-cycle step adjustment subject to review or inclusion in the special capital funding mechanism where the start-up O&M attaches to eligible capital. NW Natural would also add deferral and amortization over a defined period as a third option, which could spread the costs over a longer period, and looks forward to working through these approaches in Track 2.

Principles for Materiality Thresholds and Criteria

Staff invited comments on the materiality thresholds that might apply to alternative treatment. NW Natural believes those thresholds should be developed in Phase 2 as part of the integrated design of the MRP's adjustment mechanisms and the symmetrical earnings test. The appropriate threshold may depend on the characteristics of the cost, the type of adjustment under consideration, and the safeguards provided elsewhere in the plan. In particular, the framework should preserve flexibility to consider materiality at both the category and broader plan levels, recognizing that a change may be significant relative to a particular cost category without, standing alone, producing a material impact at the total O&M or plan level.

Phase 2 should address how those measures interact, whether different forms of adjustment warrant different thresholds, and the role of a symmetrical earnings test in the overall framework. Considering these elements together will allow the Commission to develop an integrated and balanced approach that provides meaningful flexibility for costs that do not reasonably follow the index, preserves incentives for cost management, and protects customers from over-recovery.

Going-In Rates, the Built-In Recovery Gap, and the additional Factors in Index

One further point bears on how the index is calibrated. Oregon ratemaking already excludes or limits recovery of portions of costs the Company must incur to operate, among them competitive employee and executive compensation, a share of directors and officers insurance, and corporate communications. The result is a built-in recovery gap: the authorized revenue requirement begins below the total cost of operating the business. Additional factors in the index formula, such as the stretch and productivity factors, layer a potential second reduction on top of that starting point, and the Company asks that the Track 2 discussion account for this cumulative effect rather than assume that going-in rates represent full recovery. Relatedly, if non-inflationary O&M is not accurately captured during the plan, unrecovered costs accumulate creating an even larger recovery gap in the short term which produces a considerable increase in going-in rates at the start of the next MRP—a reset that accurate front-end treatment moderates.

Conclusion

NW Natural supports most of Staff's Concept v1 and appreciates both the characteristic-based structure and the flexibility preserved for the first utility MRPs. Returning to the refinements identified in Table 1, the Company asks that customer programs, and other established deferrals, continue to be recovered outside the indexed revenue cap, and that the framework resolve as much as it reasonably can at the outset—through accurate going-in rates, indices fitted to the characteristics they track, step adjustments for known costs, and continued use of mechanisms that already function. A plan built based on these principles would result in reopeners and mid-term proceedings less often over its life, to the benefit of customers, Staff and other stakeholders, and the utility alike.

Attached for reference are the three illustrative scenarios NW Natural shared during the Track 1 workshop on costs that move differently than inflation: union wage expense, IT O&M start-up costs captured in rates, and IT O&M added mid-plan. NW Natural looks forward to continuing this work in Track 2.

Please address any correspondence on this matter to me, with a copy to the following:

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

Sincerely,

/s/ Zach Kravitz

Zach Kravitz
Vice President, Regulatory Affairs and Resource Planning
NW Natural

Enclosures

Union Wage Scenario Under the Index-Based Revenue Cap

How a contractual 5%/yr wage increase interacts with an index capped at inflation (AR 676 / MRP)

The Setup

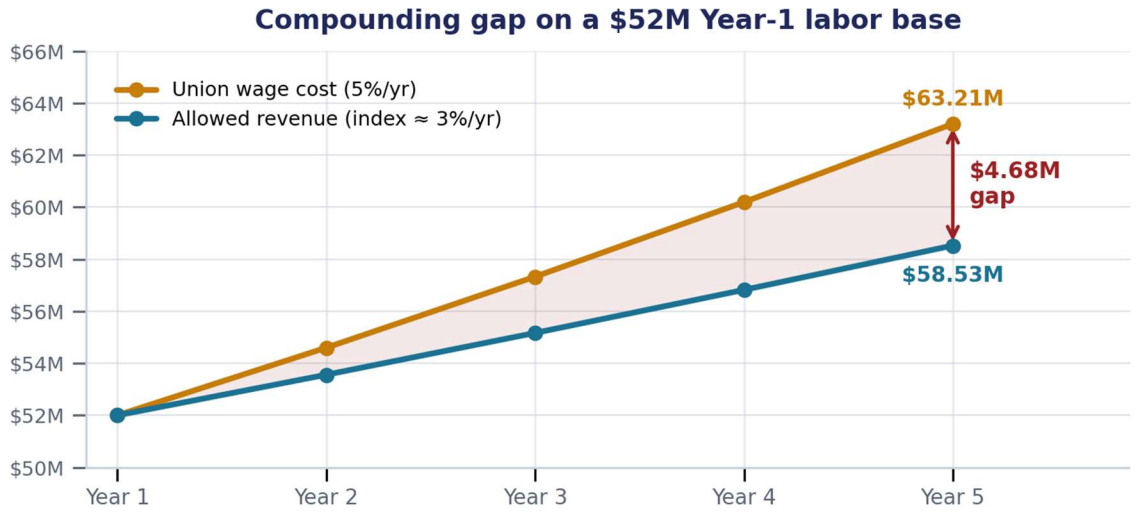
Under Staff's proposed index-based revenue cap, Year 1 allowed revenue is set on the utility's reasonable cost needs ("going-in rates"), and later years escalate by the formula I − X − S + G + Z — a blended, economy-wide index, not any individual cost line. Both the wage cost and the allowed revenue on the labor bucket start from the same $52 million Year-1 base:

- **Union Wage cost** compounds at the contractual 5%/yr
- **Allowed revenue** compounds at the index 3%/yr

Year-by-Year Math

Year	Wage cost (5%)	Allowed revenue (3%)	Annual gap
1	$52.00M	$52.00M	$0.00M
2	$54.60M	$53.56M	$1.04M
3	$57.33M	$55.17M	$2.16M
4	$60.20M	$56.82M	$3.37M
5	$63.21M	$58.53M	$4.68M
Total	**$287M**	**$276M**	**$11M**

The Diverging Lines



A 5% contractual wage increase is **not funded on its own terms** under an index capped at inflation. By the 5th year of the rate plan, the utility is under-recovering $4.68 million/year. When factoring in the next rate plan and the going-in rates (adding 5%), the requested increase will be closer to $7.7 million to catch up from the 4 years of under-recovery.

Decision Tree

How the wage gap resolves under the index-based revenue cap — illustrative

How is the wage gap resolved under the cap?

DEFAULT	Z-FACTOR?	DESIGN LEVERS	BACKSTOP
Absorb inside the budget Unrecovered gap creates a known financial detriment to the utility after going in rates are set.	**Exogenous events factor** Z is for significant, unforeseen, external shocks (e.g., storms, recession). A known, negotiated wage path is foreseeable and partly in the utility's control.	**"Non-inflationary cost" exception** Create criteria for utilities to increase costs for specific categories that move differently than inflation	**Reopener / off-ramp / ESM** If cumulative gap erodes earnings past a threshold, off-ramp and earnings-sharing provisions let the utility seek relief before term end.

IT O&M Start-Up Costs Captured in Rates — Over-Recovery Under the Index Cap

What happens when a temporary IT O&M start-up cost is embedded in going-in rates and then rolls off (AR 676 / MRP)

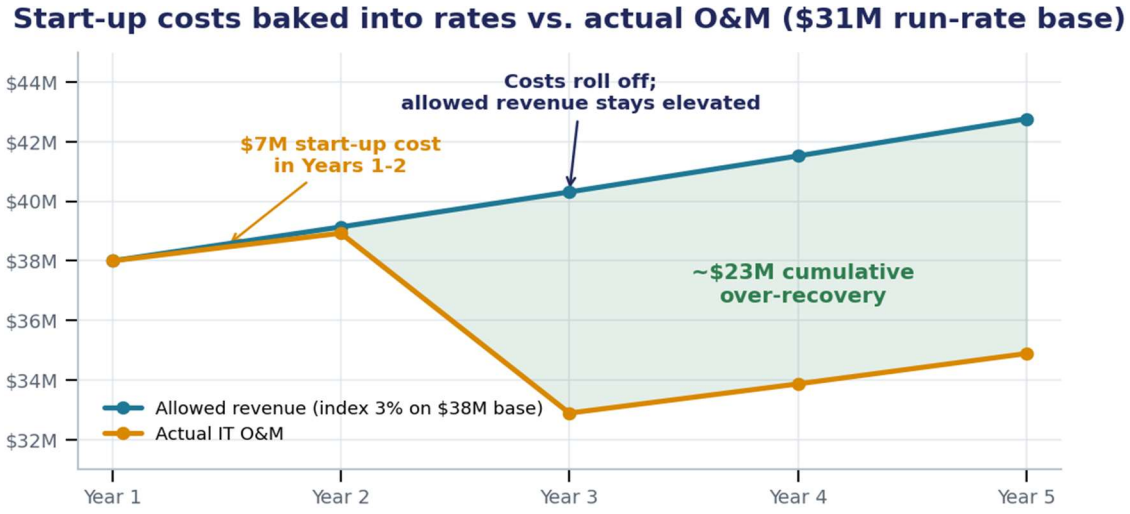
The Setup

IT O&M has a $31 million run-rate, and a major IT implementation adds $7 million of one-time O&M start-up costs in each of the first two years. Because those costs are in the base year, going-in rates are set on a $38 million base and the 3% index grows that inflated base every year. When the start-up costs roll off after Year 2, actual O&M falls back to the run rate while allowed revenue stays elevated — so the utility over-recovers, and the surplus grows every year.

Year-by-Year Math

Year	IT O&M cost	Allowed revenue (3%)	Annual over-recovery
1	$38.00M	$38.00M	$0.00M
2	$38.93M	$39.14M	$0.21M
3	$32.89M	$40.31M	**$7.42M**
4	$33.87M	$41.52M	**$7.65M**
5	$34.89M	$42.77M	**$7.88M**
Total	**$178.58M**	**$201.75M**	**$23.17M**

The Diverging Lines



Because the one-time start-up costs are captured in the base, allowed revenue is set high and keeps growing at the index. Once the costs roll off in Year 3, actual O&M drops back to the run rate but allowed revenue does not — so the gap flips to over-recovery of about $7.9 million/year by Year 5, roughly $23 million over the plan. This creates a customer detriment and over-earning until the temporary cost is stripped out at the next rebasing.

Decision Tree

How a temporary start-up cost embedded in rates is trued up under the index-based revenue cap — illustrative

How is the over-recovery handled once the start-up cost rolls off?

DEFAULT	DEFERRAL	DESIGN LEVER	BACKSTOP
Leave the cost in rates Over-recovery occurs in final three years of plan and will be addressed prospectively at rebasing.	**Defer the start-up costs outside of base rates** The temporary start-up cost can be tracked outside of base rates and all other IT O&M can remain in plan.	**Forecast** Include forecasted start-up costs in base rates but remove from rates after the Company is no longer spending.	**Earnings test / rebasing** Annual earnings test limits over-recovery for this expense to the extent the Company's earnings exceed the established earnings test.

IT O&M Cost Scenario Under the Index-Based Revenue Cap

What happens when a new IT O&M cost lands mid-plan that going-in rates didn't include (AR 676 / MRP)

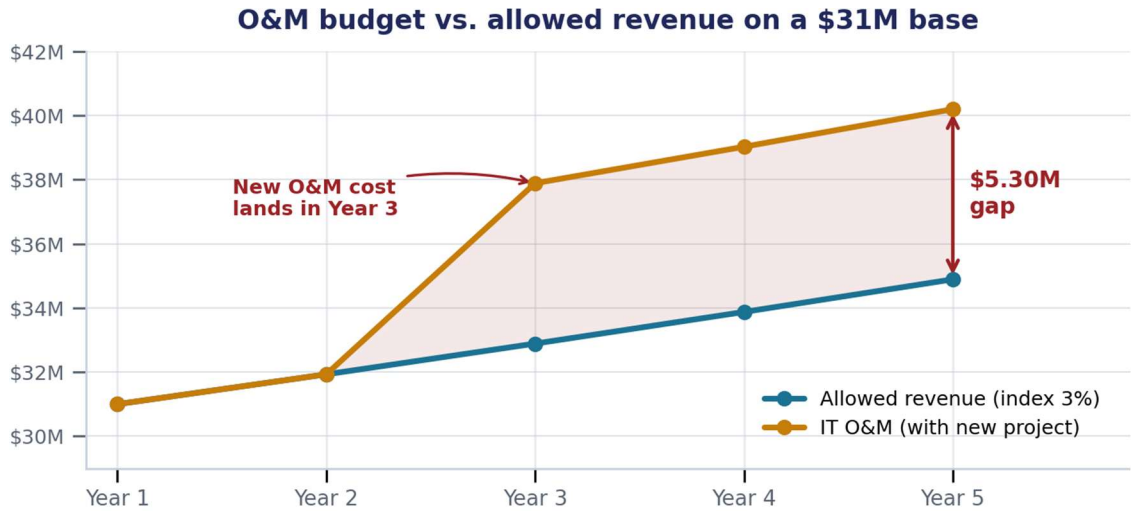
The Setup

IT O&M costs start at a $31 million Year-1 base, and allowed revenue grows at the 3% index. In Year 3, a new IT modernization project adds about $5 million of ongoing O&M that wasn't reflected in going-in rates. Because the index only grows the original base at 3%, a gap opens the moment the new cost lands.

Year-by-Year Math

Year	IT O&M cost	Allowed revenue (3%)	Annual gap
1	$31.00M	$31.00M	$0.00M
2	$31.93M	$31.93M	$0.00M
3	$37.89M	$32.89M	**$5.00M**
4	$39.02M	$33.87M	**$5.15M**
5	$40.20M	$34.89M	**$5.30M**
Total	**$180M**	**$165M**	**$15M**

The Diverging Lines



A new O&M cost that going-in rates didn't include is not funded by the index. **By the 5th year the utility is under-recovering about $5.3 million/year, roughly $15 million over the plan**. When the next plan resets going-in rates, the requested increase will be even larger to catch up for the years of under-recovery.

Decision Tree

How the unexpected O&M cost is recovered under the index-based revenue cap — illustrative

How is the unexpected O&M cost recovered under the cap?

DEFAULT	DEFERRAL	DESIGN LEVER	BACKSTOP
Absorb inside the budget Unrecovered gap creates a known financial detriment to the utility after going in rates are set.	**O&M deferral** One-time start-up costs can be deferred and spread out to smooth the impact — but ongoing costs generally can't.	**Non-inflationary cost exception** Create criteria for cost categories that move differently than inflation, so the index can adjust for them.	**Reopener / rebasing** If the gap gets big enough, off-ramp provisions apply; otherwise the higher O&M is picked up at the next rebasing.

Assumptions: $31M Year-1 IT O&M base; index ≈ 3%; new project adds $5M/yr of O&M from Year 3; figures illustrative. Sources: AR 676 Staff Phase 1 Straw Proposal & Order 26-242; Joint Gas Utilities comments (AR 676 / 677).