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October 9, 2026

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"), hereby files the Gas Other Cost Category Pre-Read Materials in docket AR 676.

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

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Rates & Regulatory Affairs
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Sincerely,

NW Natural

/s/ Maddie Pulliam

Maddie Pulliam
Rates & Regulatory Analyst

Enclosure

Gas: Other Costs

Taxes, Policy-Driven Deferrals, Rate Mechanisms, the Site Remediation Recovery Mechanism (SRRM), and the Climate Protection Program (CPP)

Outside utility control

Taxes, policy-driven deferrals, rate mechanisms, and legacy environmental remediation costs are driven by taxing authorities, state policy, customer usage, and historical legal obligations. Many are already trued up to actual cost through existing Commission-approved mechanisms.

Where these costs sit in the revenue requirement

The O&M and Capital pre-reads addressed the Operating & Maintenance, Depreciation Expense and Return on Rate Base building blocks of the revenue requirement, shown below. This pre-read covers the remaining piece — taxes — along with several costs that are recovered through separate tariff schedules outside of base rates. The table below shows the full revenue requirement; the highlighted rows are the pieces driven by taxes.

ELEMENTS OF REVENUE REQUIREMENT

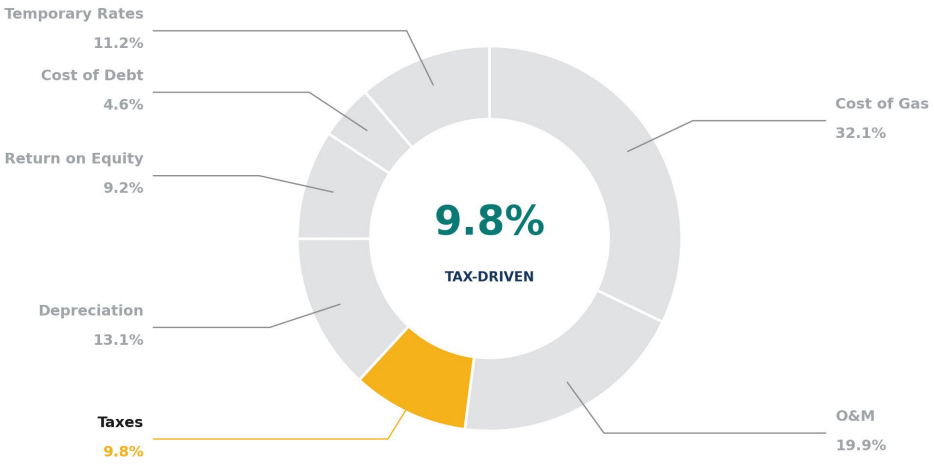
Operating & Maintenance	Day-to-day, non-capital costs of providing utility service
Depreciation Expense	Return OF capital — recovers the original investment over the asset's useful life
Return on Rate Base	Return ON capital — the authorized return (cost of debt and equity) on undepreciated rate base
Income Taxes	Federal and state income taxes
Other Taxes	Property, payroll, franchise, and other applicable taxes
Gas Costs	Commodity and upstream pipeline costs, recovered through the PGA
REVENUE REQUIREMENT	**Total annual revenue needed to provide service**

This pre-read also covers costs outside the revenue requirement. Beyond the highlighted tax rows, local taxes (MCBIT and Metro), rate mechanisms, the SRRM, and the CPP are recovered through separate schedules and temporary rates that typically sit outside a revenue requirement determination. Each is discussed below.

Taxes as a Percentage of Total Bill

Taxes follow from the other building blocks. Income taxes are driven by the return on rate base, property taxes are driven by Company assets, and payroll taxes are driven by labor. Tax rates and rules are set and enforced by federal, state, and local governments, not the Company. Taxes make up roughly 10% of a typical customer bill. The chart below

uses the same illustrative bill breakout presented in the O&M and Capital pre-reads, with the Taxes component highlighted.



Note: temporary rates include deferrals and other adjustments that are typically outside of a revenue requirement determination.

The main categories of taxes

Each tax the Company pays has a distinct driver and, in several cases, an existing recovery mechanism outside of base rates.

Federal income tax	Taxable income from the authorized return on equity; set by federal law. Recovered in base rates.
Oregon income / excise tax	Oregon taxable income; set by state law. Recovered in base rates.
Oregon Corporate Activity Tax (CAT)	Oregon commercial activity (gross receipts); set by state law. Recovered through base rates and Schedule 177.
Property tax	Assessed value of utility plant; grows as rate base grows. Recovered in base rates.
Payroll taxes	Wages and statutory employer rates for federal and state payroll programs. Recovered in base rates.
Multnomah County Business Income Tax (MCBIT)	Business income tax assessed by Multnomah County. Recovered through Schedule A from customers in Multnomah County, with a balancing account.
Metro Supportive Housing Services (Metro) Tax	1% tax on business profits approved by regional voters (Measure 26-210). Recovered through Schedule A from customers in the Metro region, with a balancing account.

LOCAL TAXES: MCBIT AND METRO

Schedule A passes through local taxes and fees imposed on the Company by a city, county, or regional entity. These amounts are billed only to customers within the taxing jurisdiction and collected through a percentage of bill. For both MCBIT and Metro tax, a balancing account tracks any difference between actual tax expense and amounts collected, and the rate is updated annually each April 1 to reflect that difference. Effective April 1, 2026, the current Metro and MCBIT rates are 0.09% and 0.17% of billed charges, respectively.

Because these taxes apply only to customers in specific jurisdictions, they are better suited outside of rate cases. Folding them into base rates would improperly spread a local tax to customers who live outside the taxing jurisdiction.

Why an index-based revenue cap does not fit all taxes

As we have noted in our previous pre-reads, an index is a reasonable starting point for costs that move with general inflation. Taxes, however, follow tax law and their underlying cost drivers — and may move well above or below any formulaic escalator.

Tax driver	Why an index may not fit	Potential Approach
Tax law changes	Federal, state, or local rate changes are set by legislatures or voters and can occur mid-plan in either direction.	**Deferral under ORS 757.259, refund or surcharge to actual**
Property tax	Increases with plant value but does not have a formulaic equation to predict cost; the ratio of tax to plant value has not been consistent and has risen significantly in recent years.	**Forecast or specialized index**
Payroll taxes	Follow wages, which have outpaced general inflation, and statutory employer rates.	**Move with the labor index or labor adjustment**
Local taxes and CAT	Jurisdiction-specific and already tracked to actual.	**Keep existing Schedule A and Schedule 177**

Other deferrals and rate mechanisms similar in spirit to customer programs

The O&M pre-read explained that customer program costs are deferred and amortized annually based on actual spending, providing one-for-one recovery. The deferrals below share the same features: they are driven by policy or customer behavior rather than utility management, they vary significantly from year to year, and they already have a functioning, Commission-approved recovery mechanism.

Schedule 168 – Temporary Rate Adjustment (Net Curtailment and Entitlement Revenues)

Established through the UG 388 stipulation (Order No. 20-364) and deferred under docket UM 2123. Net revenues related to curtailment and entitlement events are deferred and credited back to customers through a temporary rate adjustment rather than kept by the Company. These revenues depend on weather and customer behavior during system events and they cannot be forecast.

Schedule 189 – Adjustment for TSA Capital and Cost of Service Cost Recovery

Recovers the capital and O&M costs of complying with the federal Transportation Security Administration's Pipeline Security Directive 2. The directive requires ransomware mitigation, a cybersecurity contingency and response plan, and a security architecture design review. Recovery was authorized in UG 435 (Order No. 22-388). Costs are deferred under docket UM 2192, which is reauthorized annually, and amortized coincident with the PGA. The directive is federally mandated and has been amended several times, most recently on May 1, 2026, so the Company cannot reliably forecast compliance costs.

Schedule 190 – Partial Decoupling Mechanism	Established in 2002 in docket UG 143 (Order No. 02-634) and continued in each general rate case since, most recently UG 520 (Order No. 25-420). For residential and small to mid-sized commercial customers, the Company compares weather-normalized usage to a baseline use per customer and multiplies the difference by the distribution margin. The full differential is deferred under UM 1027 and amortized annually using an automatic adjustment clause coincident with the PGA, as either a refund or a surcharge. Use per customer changes with customer conservation and efficiency, not utility decisions.
Schedule 195 – Weather Adjustment Rate Mechanism (WARM Program)	First approved in NW Natural's 2002 rate case, UG 152 (Order No. 03-507). WARM adjusts residential and commercial bills in real time from December 1 through May 15 to offset usage swings caused by colder- or warmer-than-normal weather. Monthly adjustments are subject to caps and floors. Amounts beyond the caps and floors are deferred under UM 1798 and amortized to Schedules 2 and 3 coincident with the PGA, as set in UM 1750 (Order No. 16-223). The adjustments depend entirely on weather and work in both directions.
Schedule 198 – Renewable Natural Gas Adjustment Mechanism	An automatic adjustment clause under Senate Bill 98 (ORS 757.390–757.398). It recovers the revenue requirement of qualified renewable natural gas (RNG) investments that help the Company meet statutory RNG targets, which rise from 5% of Oregon sales in 2020 to 30% by 2045. The mechanism was approved in UG 435 (Order No. 22-388). Rates are set annually based on forecast costs. The difference between forecast and actual is deferred under UM 2266 and subject to an earnings test with deadbands of 50 basis points above and below the authorized ROE. These investments are driven by state policy, and the amounts change as projects come online.
Schedule 181—Oregon Regulatory Fee Adjustment	Reflects changes in the annual regulatory fee the Commission charges utilities. Differences between the fee in base rates and the fee actually assessed are deferred under docket UM 1766, which is reauthorized annually. Deferred amounts are amortized each year coincident with the PGA. The fee is set by the Commission, not the Company, and true-ups can result in a refund or a surcharge.

Schedule 172—Special Adjustment to Rates for Intervenor Funding	Recovers grants paid to organizations that represent customers in Commission proceedings under Intervenor Funding Agreements authorized by ORS 757.072 (most recently UM 2264 and UM 2276). Eligible groups include those that represent broad customer interests, low-income customers, and residential customers in environmental justice communities. Grant amounts are deferred under docket UM 1101, which is reauthorized annually, and amortized each year with the PGA . The Commission approves the grants and intervenors decide how much to participate, so the amounts depend on the number and complexity of proceedings, not on Company decisions.

Policy rationale. As with customer programs, these costs are driven by policy or customer behavior, may vary widely from year to year, and are already trued up through existing mechanisms. Keeping them outside the MRP avoids both over- and under-recovery and preserves transparency.

Uncollectible Expense

Uncollectible expense is the portion of customer bills that is not paid. Every utility has some unpaid bills, so the Commission includes an expected level of uncollectible expense in rates. In practice, this means the cost of bills some customers cannot pay is shared by all customers.

HOW UNCOLLECTIBLE EXPENSE IS CALCULATED

- **Start with history.** The Company tracks how much of its customer billings it writes off as uncollectible each year, net of any amounts it later recovers. These historical net write-offs are the starting point for the uncollectible expense included in rates.
- **Turn it into a percentage.** Net write-offs are divided by total billed revenue for the same period. For example, if customers were billed $100 and $0.25 was never paid, the uncollectible rate is 0.25%.
- **Apply the percentage to revenue.** The rate is applied to the Company's revenue, so uncollectible expense moves with revenue. It goes up when revenue grows and down when revenue falls.

WHY UNCOLLECTIBLE EXPENSE SHOULD REMAIN OUTSIDE THE MRP

The link to disconnections: Oregon policy increasingly emphasizes keeping customers connected through disconnection protections, bill discounts, and arrearage management programs, and the Company shares those goals. One result is that past-due balances can stay open longer and grow larger before an account is resolved. To the extent those balances are eventually written off, they raise the historical uncollectible rate, and that higher rate carries into the amount included in rates for all customers.

Because these changes follow from policy choices and economic conditions, they are unlikely to track a general inflation index. Keeping uncollectible expense tied to actual experience would let rates reflect these policy choices without over- or under-recovery.

Site Remediation Recovery Mechanism (SRRM)

The SRRM (Schedule 183) recovers the Company's prudently incurred costs to clean up environmental sites, including former gas manufacturing sites operated by NW Natural's predecessor, net of any insurance or third-party proceeds. NW Natural began deferring these costs in 2003, and the Commission authorized the SRRM in 2012 in docket UG 221 (Order No. 12-408) and mechanics of the mechanism in UM 1635 (Order No. 15-049).

HOW THE SRRM WORKS

- **Deferral.** Remediation costs and offsetting insurance and third-party proceeds are recorded in a deferral account that is reauthorized annually (UM 1078).
- **Base rate recovery.** $5.0 million per year is collected from Oregon customers through base rates.
- **Insurance offsets.** NW Natural received approximately $150 million in environmental insurance proceeds. Under the 2015 OPUC order, one-third of the Oregon-allocated proceeds was applied to costs deferred through 2012, and the remaining two-thirds is applied at $5.0 million per year, plus interest, over 20 years. As of December 31, 2025, $110.7 million had been applied to prudently incurred Oregon remediation costs.
- **Prudence review.** Costs are reviewed for prudence through the Company's annual report of remediation expenses (UM 1732) and associated exhibits.
- **Earnings test.** Costs above the $5.0 million in base rates and the $5.0 million annual insurance offset are recoverable if the Company earns at or below its authorized ROE. In any year the Company earns above its authorized ROE, it must cover those costs with the earnings above its authorized ROE.
- **Gradual amortization.** No more than one-fifth of prudently incurred costs eligible for amortization is recovered in any year, which smooths the rate impact.
- **Oregon allocation.** 96.7% of incurred costs are allocated to Oregon customers (UM 1635).

WHY THE SRRM SHOULD REMAIN OUTSIDE THE MRP

- **Fully litigated, carefully constructed, and intended to be durable.** The Commission established the SRRM in UG 221 (Order No. 12-408) and set its terms in UM 1635 (Order No. 15-049). In Order No. 15-049, the Commission found the Company's remediation costs prudent, applied $50.2 million of insurance proceeds to reduce the 2003–2012 deferred balance to $44.2 million, and then applied an earnings test that disallowed $15 million of that balance. It also set $5 million per year in base rates, spread the remaining insurance proceeds over the life of the cleanup, and required an annual earnings test on future deferrals, alongside annual prudence review and a one-fifth amortization cap. These pieces work together as a carefully constructed package designed to govern recovery through the end of the cleanup.
- **Uneven and unpredictable.** The scope, timing, and cost of remediation are set by environmental regulators, not the Company, and can change as cleanup plans move through investigation, design, and approval. NW Natural is one of more than one hundred potentially responsible parties at the Portland Harbor Superfund site, each jointly and severally liable. EPA estimated the present value of the total cleanup cost at approximately $1.05 billion, with an accuracy range of -30% to +50%, and the Company's share depends on a non-binding allocation process among those parties. These costs are large relative to the Company's entire revenue requirement and will vary significantly from year to year. If they were set in going-in rates and escalated by an index, the resulting over- or under-recovery would be more than either customers or the Company should be asked to bear.

Climate Protection Program (CPP)

NW Natural has deferred CPP compliance costs since 2022 under docket UM 2252. These costs are driven by Oregon Department of Environmental Quality rules, which have changed over time, including the replacement rules that took

effect on January 1, 2025. The scope and cost of compliance depend on state regulation, weather, and market conditions, not on utility operations.

WHY CPP COSTS SHOULD REMAIN OUTSIDE THE MRP

- **A mandatory state policy cost.** CPP compliance is mandated by DEQ rule, and the state sets the price of community climate investments ("CCIs") (as of March 2026, $136 per CCI). Like a tax, the cost is imposed by state policy rather than by the utility, and it is passed through to customers. Beyond CCIs, meeting the program's declining emissions caps will require a changing mix of compliance options, and the cost and timing of those options are uncertain. Even for CCIs, it is not known when they will become available.
- **Weather-driven and not normalized.** Compliance obligations follow the actual emissions from customers' use, which rise and fall with actual weather. These costs are not weather-normalized, so a colder- or warmer-than-normal year adds significant volatility from year to year. NW Natural's compliance costs will increase in colder-than-normal weather and decrease in warmer-than-normal weather. The result would be either over-recovery (if weather is warmer than forecasted) or under-recovery (if weather is colder than forecasted). Both are undesirable outcomes.
- **Passed through at cost.** Community climate investments are passed through to customers at cost, and the Company earns no return on them. The obligation is set by actual emissions, and the price and availability of community climate investments are outside the Company's control. An index would reward or penalize the Company for weather and DEQ rule changes, not for its compliance decisions, which the Commission can already review through the existing processes.
- **SCFM-scale, but not an SCFM project.** CPP costs belong in the same category as the costs the SCFM is meant to address. They are very large and will vary significantly from year to year. Because they are driven by weather and compliance is demonstrated at the end of multi-year compliance periods, they may arrive in large, uneven amounts. But CPP costs do not fit the SCFM mold as Staff has contemplated it. Staff's electric distribution capital concept describes the SCFM as a narrow tool for specific, planned investments that fall mid-cycle, with utilities limited to two filings per MRP term. CPP is a recurring compliance obligation driven by weather, DEQ rules, and market prices, not a discrete project or a traditional operational planning decision, and its costs are larger than most costs that could reasonably be contemplated for the SCFM. A stand-alone mechanism outside the MRP is a better fit for the CPP.

Taxes, deferrals, and rate mechanisms under a multi-year rate plan

An index-based revenue cap escalates allowed revenue by a formula and does not, by itself, capture changes in tax law or costs driven by policy, customer behavior, or legacy legal obligations. Three points follow for AR 676:

- **Keep what works.** Schedule A, Schedule 168, Schedule 172, Schedule 177, Schedule 189, Schedule 181, Schedule 190, Schedule 195, Schedule 198, the CPP deferral, and the SRRM are well functioning, Commission-approved mechanisms. NW Natural is not seeking broad exceptions to the MRP scope, only to continue these discrete mechanisms.
- **Keep taxes consistent with their drivers.** Income, property, and payroll taxes should follow the treatment of return on rate base, capital, and labor.
- **Balanced treatment.** True-ups work in both directions. Customers receive refunds when taxes decline or net curtailment revenues accrue, just as they pay when costs rise.

In short, keeping these discrete mechanisms separate from the index preserves accurate, transparent recovery for costs outside the utility's control, without adding risk for customers or the Company.