

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

**UG 435**

In the Matter of	)	
	)	
NW NATURAL GAS COMPANY, dba NW	)	OREGON CITIZENS' UTILITY
NATURAL,	)	BOARD'S REDACTED EXHIBITS
	)	
Request for a General Rate Revision.	)	
_____	)	

The Oregon Citizens' Utility Board ("CUB") CUB submits the following Exhibits for inclusion in the administrative record in this proceeding, not previously filed in this case. As indicated in the Motion to Modify the Procedural Schedule filed by NW Natural on July 27, 2022, CUB has verified with all applicable parties that the following exhibits have been stipulated to:

- CUB Exhibit 600 – UG 435 AWEC DR 22 NWN Revised Response.
- CUB Confidential Exhibits 601-612 – UG 435 AWEC DR 22 NWN Response Attachments 1, 2a, 2b, 2c, 3, 4a, 4b, 4c, 5, 6, 7, and 8.
- CUB Exhibit 613 – UG 435 CUB's Data Response 2 to NWN.
- CUB Exhibit 614 – UG 435 OPUC Response to CUB DR 1.
- CUB Exhibit 615 – UG 435 NWN Response to CUB DR 92.
- CUB Exhibit 616 – UG 435 NWN Response to CUB DR 93.

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CUB thanks the Commission for the opportunity to include the aforementioned Exhibits for inclusion in the administrative record.

Dated this 28<sup>th</sup> day of July, 2022.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Michael P. Goetz".

Michael P. Goetz, OSB #141465  
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## UG 435 – CERTIFICATE OF SERVICE

I hereby certify that, on this 28<sup>th</sup> day of July, 2022, I served the **Confidential Exhibits of the Oregon Citizens' Utility Board** in docket UG 435 upon the Commission and each party designated to receive confidential information pursuant to Order 21-461 through a secure, encrypted attachment to an e-mail.

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Respectfully submitted,



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**Rates & Regulatory Affairs**  
UG 435  
Request for a General Rate Revision  
**Data Request Response**

**Request No.:** UG 435 AWEC DR 22

22. Please provide a copy of each of NW Natural's special contracts.

**Response:**

For cross-referencing purposes, please see Schedule 60A (Special Contracts - Index) and Schedule 60 (Special Contracts) of NW Natural's Oregon tariff. A copy of each of NW Natural's special contracts in Oregon is provided as UG 435 AWEC DR 22 Attachments 1 (International Paper Company), 2 (Columbia Pacific Bio-Refinery, Clatskanie, Oregon), 3 (Georgia-Pacific West, Inc. (Halsey Mill)), 4 (Microchip Technology, Inc.), 5 (University of Oregon), 6 (Oregon Steel Mills, Heat Treat Facility, Portland, OR), 7 (Columbia Steel Casting Co., Inc., Portland OR) and 8 (Dyno Nobel, Inc., St Helens, Oregon).

**Revised Response:**

For cross-referencing purposes, please see Schedule 60A (Special Contracts - Index) and Schedule 60 (Special Contracts) of NW Natural's Oregon tariff. A copy of each of NW Natural's special contracts in Oregon is provided as CONFIDENTIAL UG 435 AWEC DR 22 Attachments 1 (International Paper Company), 2 (Columbia Pacific Bio-Refinery, Clatskanie, Oregon), 3 (Georgia-Pacific West, Inc. (Halsey Mill)), 4 (Microchip Technology, Inc.), 5 (University of Oregon), 6 (Oregon Steel Mills, Heat Treat Facility, Portland, OR), 7 (Columbia Steel Casting Co., Inc., Portland OR) and 8 (Dyno Nobel, Inc., St Helens, Oregon).

After further investigation of limited records dating back several decades, it appears that special contracts were filed with the Commission under confidential seal. Accordingly, the special contracts attached to this data request response should be marked as "Confidential."

CUB Exhibit 601 is Confidential and has been served upon the Commission and each party designated to receive confidential information pursuant to Order 21-461.

CUB Exhibit 602 is Confidential and has been served upon the Commission and each party designated to receive confidential information pursuant to Order 21-461.

CUB Exhibit 603 is Confidential and has been served upon the Commission and each party designated to receive confidential information pursuant to Order 21-461.



CUB Exhibit 604 is Confidential and has been served upon the Commission and each party designated to receive confidential information pursuant to Order 21-461.

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CUB Exhibit 607 is Confidential and has been served upon the Commission and each party designated to receive confidential information pursuant to Order 21-461.

CUB Exhibit 608 is Confidential and has been served upon the Commission and each party designated to receive confidential information pursuant to Order 21-461.

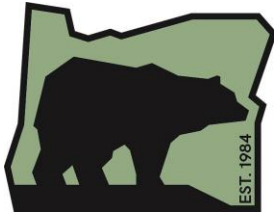
CUB Exhibit 609 is Confidential and has been served upon the Commission and each party designated to receive confidential information pursuant to Order 21-461.

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CUB Exhibit 611 is Confidential and has been served upon the Commission and each party designated to receive confidential information pursuant to Order 21-461.



CUB Exhibit 612 is Confidential and has been served upon the Commission and each party designated to receive confidential information pursuant to Order 21-461.



# Oregon Citizens' Utility Board

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July 19, 2022

## *Via electronic filing*

Eric Nelsen  
Northwest Natural  
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Re: UG 435 – NW Natural's Request for a General Rate Revision, CUB Data Response 2.

Enclosed please find the Oregon Citizens' Utility Board's ("CUB") Data Response 2 to NW Natural in the above-referenced docket. Please do not hesitate to contact CUB with any questions.

***DR 2 from NWN: Please refer to CUB/400, Jenks/34 ("I recommend that there should no longer be a presumption of prudence for growth-related investments..."). Please explain in detail the basis for CUB's claim that there is a presumption of prudence for growth-related investments. Please provide any citations to statutes, rules, or Commission orders establishing or discussing the referenced presumption of prudence.***

The basis for CUB's claim is historical knowledge regarding recovery of LEA-related costs. In a utility dispute before the Public Utility Commission of Oregon, the burden of proof consists of two discrete components—the burden of persuasion and the burden of production.<sup>1</sup> The burden of persuasion and the ultimate burden of producing sufficient evidence to support its claims is always with the utility.<sup>2</sup> In a case in which a utility is requesting a change in rates or a schedule of rates—such as a general rate case—the utility bears the burden of showing that its proposed change will result in rates that are fair, just, and reasonable.<sup>3</sup>

Therefore, absent a presumption of prudence for growth-related investments served by the LEA, the utility bears the burden of proof to demonstrate that these investments are prudent. However, NW Natural's testimony in its last three rate cases (UG 344, UG 388, UG 435) is completely

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<sup>1</sup> *In re Portland General Electric Company Application to Amortize the Boardman Deferral*, OPUC Docket No. UE 196, Order No. 09-046 at 7 (Feb. 5, 2009).

<sup>2</sup> *Id.*

<sup>3</sup> ORS 757.210(1)(a).

devoid of any arguments related to the prudence of growth-related investments served by its LEA. Yet, in these cases, NW Natural's LEA and the investments it made to serve new customers were allowed into rates. Therefore, NW Natural's growth-related investments were presumed to be prudent even though the Company never demonstrated their prudence. Under the traditional burden of proof borne by utilities to demonstrate prudence, this could not have occurred. NW Natural was only allowed to place the costs associated with these investments into rates because they were presumed to be prudent.

CUB's position to eliminate this presumption of prudence is based on the fact that current growth-related costs, including those related to CPP compliance, are not providing a benefit to customers. This concept is corroborated by a fundamental LEA concept articulated in *Line Extensions for Natural Gas: Regulatory Considerations*, National Regulatory Research Institute (Feb. 2013).<sup>4</sup> There, the NARUC-approved text states that "when a utility receives revenues from new customers equal to or greater than the incremental cost, existing customers are either no worse off or better off."<sup>5</sup> However, when the incremental cost of serving new customers outstrips the revenue collected from these new customers, existing customers are harmed. This is the paradigm that is currently occurring on NW Natural's system and will be exacerbated as CPP compliance costs continue to accelerate. Therefore, CUB recommends that NW Natural bear the burden to prove that growing the system, in spite of the need to reduce terms to reduce its compliance obligation, is reasonable, prudent, and in customers' best interests. The Company has not carried its burden to prove that its LEA is prudent in any recent general rate case proceeding. CUB asks that it bear this burden going forward. Otherwise, customers will be inappropriately harmed while shareholders will benefit.

/s/ Michael P. Goetz

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<sup>4</sup> Available at <https://pubs.naruc.org/pub.cfm?id=B377212B-EFB0-EAB3-E524-88AB6D4332A6#:~:text=The%20new%20legislation%20makes%20gas,are%20unrecoverable%20by%20the%20outility.&text=This%20treatment%20required%20a%20change%20in%20the%20state%20Natural%20Gas%20Regulation%20Act.>

<sup>5</sup> *Id.* at 27.



UG 435 – OPUC Response to CUB’s Data Request

Page 1

Date: July 26, 2022

TO:

BOB JENKS  
OREGON CITIZENS’ UTILITY BOARD  
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FROM: Mathew Muldoon  
Manager  
Rates, Finance and Audit Division

**OREGON PUBLIC UTILITY COMMISSION**  
**Docket No. UG 435 – CUB Data Request filed July 18, 2022**

**CUB Data Request No 01:**

1. See CUB/400/Jenks/11. CUB’s testimony recommended two changes to NWN’s Line Extension Allowance (LEA) Policy: 1) Reject NWN’s current Internal Rate of Return (IRR) methodology and return to the 5-years of margin methodology used prior to the 2012 NWN general rate case, and 2) Recognize the increased CPP compliance costs and phase out the LEA. In Staff/1800/Muldoon/26, Staff states, “Staff recommends the Commission find that the issues raised by the Coalition and CUB are complex matters applicable to all natural gas utilities, and more appropriately handled in a separate docket.”
  - a. Please confirm that Staff’s testimony calling for a separate investigation was in reference to CUB’s second recommendation, not CUB’s first recommendation.
  - b. Does Staff believe NWN’s IRR methodology is appropriate to address in this proceeding?

**OPUC Response No 01:**

**Staff Response to CUB DR 1:**

- 1a. Staff did not analyze NW Natural’s IRR methodology looking for best alternatives or better approaches. Staff’s primary concern is consistency across Commission jurisdictional local gas distribution companies.
- 1b. Staff has not done the work to make a recommendation on NWN’s IRR methodology in this proceeding. Staff’s primary concern would be that any proposal by CUB would allow for consistency across all three natural gas utilities.

**Rates & Regulatory Affairs**

UG 435

Request for a General Rate Revision

**Data Request Response****Request No.:** UG 435 CUB DR 92

92. Refer to UG 435 – NW Natural/1800/Taylor/18, lines 1-3. NW Natural’s Line Extension Analysis (LEA) model calculates the Internal Rate of Return (IRR) on a 30-year basis “to recognize both the useful life of utility assets and the expected time a new customer is expected to remain on the system.” See also UG 435 – NW Natural/2600/Taylor/21. “In addition, I would like to clarify what was stated in my Reply Testimony. While I noted that NW Natural’s investment analysis reflects the expected time a new customer is to remain on the system, this should not be interpreted as the expected revenue stream from the use of connection assets. New customers are continually replaced by other new customers using the same service and meter (e.g., a new homeowner), and the Company expects assets will remain used and useful for the duration of their estimated lives.”

a. Is it NW Natural’s position that a new customer being connected to the system through a LEA is expected to remain for 30 years, but will then be replaced by a new customer at that address after that period?

b. Does the 30 years represent the useful life of the utility assets?

c. Within the IRR, is the LEA amortized over 30 years?

d. If the answer to (a) and (b) are no, why is the IRR calculated over 30 years?

e. If NW Natural believes a customer will remain at one location for 30 years, what is the basis for this assumption?

f. If the answer to (e) is yes, how does the Company reconcile this with the fact that the median duration of homeownership in 2018 was 13 years? See National Association of Realtors article, available at <https://www.nar.realtor/blogs/economists-outlook/how-long-do-homeowners-stay-in-their-homes#:~:text=As%20of%202018%2C%20the%20median,varies%20from%20area%20to%20area>

**Response:**

a. No. NW Natural is not providing a specific estimate of the amount of time a new customer will remain in the residence to which new service is being extended.

b. No.

c. No. The investment analysis used to determine the current LEA applies a 2.5% depreciation rate to the LEA.

- d. As stated in my surrebuttal testimony: “the Company expects assets will remain used and useful for the duration of their estimated lives.”<sup>1</sup> The investment analysis uses a 30-year term (which is shorter than the expected useful life of the assets) to produce an allowed LEA that is conservative, ensuring existing customers and new customers benefit from gas service being extended to new customers.
- e. NW Natural is not providing a specific estimate of the amount of time a new customer will remain in the residence receiving a new service connection.
- f. N/A, based on response to (e).

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<sup>1</sup> NW Natural/2600, Taylor/21, lines 17-18.

**Rates & Regulatory Affairs**

UG 435

Request for a General Rate Revision

**Data Request Response****Request No.:** UG 435 CUB DR 93

93. Refer to UG 435 – NW Natural/2400/Heiting-Bracken/2, “NW Natural . . . has been evaluating the development of separate LEAs specifically applicable to dual fuel and gas heat pumps.”

a. Over the last 5 years, has the Company paid any LEAs to customers who install hybrid/dual fuel heat pumps? If so, please provide the dollar amount of that LEA and provide a narrative explanation of how that dollar amount was arrived upon.

**Response:**

The Company has not provided LEAs for hybrid / dual fuel heat pumps over the past five years. LEAs for hybrid / dual fuel heat pumps are not included in the Company's present tariff.