BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 490

In the Matter of NORTHWEST NATURAL GAS COMPANY, d/b/a NW Natural, Request for a General Rate Revision.	ALLIANCE OF WESTERN ENERGY CONSUMERS' OPENING BRIEF

I. INTRODUCTION

Pursuant to the procedural schedule adopted by the Public Utility Commission of Oregon ("Commission"), Alliance of Western Energy Consumers ("AWEC") submits this Opening Brief. Northwest Natural Gas Company ("NW Natural") filed this rate case on December 29, 2023, proposing a $154.9 million revenue requirement increase, which if approved, would result in a 29.3 percent margin rate increase. AWEC found this level of increase to be significant, which included the results of NW Natural's proposed changes to its deprecation rates in companion Docket No. UM 2312. Since NW Natural's initial filing, AWEC and the parties engaged in discovery, filed multiple rounds of testimony, and participated in multiple settlement conferences. As a result of these efforts, the parties have resolved almost all the issues in this proceeding, as reflected in First Partial Multi-Party Stipulation ("First Stipulation") and Second Partial Multi-Party Stipulation ("Second Stipulation"). AWEC requests that the Commission approve both of those stipulations because they are in the public interest and result in rates that are fair, just, and reasonable. AWEC takes no position on the Third Partial Multi-Party Stipulation ("Third Stipulation") between NW Natural, the Oregon Citizens' Utility Board ("CUB") and the Coalition of Communities of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon

Environmental Council, Community Energy Project, and Sierra Club ("Coalition") regarding the Post-Enrollment Verification for the Income Qualified Bill Discount Program.

The parties have worked through and settled most of the issues in this proceeding. The limited contested issues remaining include:

a. The Company's line extension allowance ("LEA") policy going forward;

b. CUB's and the Coalition's proposed rate base adjustment for LEAs between 2018-2023;

c. NW Natural's proposed monthly fixed rate charge for new residential premises customers connected on or after November 1, 2024;

d. CUB's Rate Shock proposal;

e. Contested issues related to Decoupling;

f. Contested issues related to Schedule 198, the Renewable Natural Gas ("RNG") Automatic Adjustment Clause ("AAC");

g. Contested issues related to the Oregon Low-Income Energy Efficiency ("OLIEE") program; and

h. The Coalition's proposed adjustment to NW Natural's Governmental Affairs expenses ("Coalition's lobbying expense adjustment").

Of these issues, AWEC will address in this Opening Brief only the contested issues related to the AAC and the Coalition's lobbying expense adjustment. AWEC reserves the right to address the other remaining issues in its Closing Brief.

II. EXECUTIVE SUMMARY

The parties in this proceeding have worked collaboratively to address NW Natural's request to increase Oregon jurisdictional revenues and to aid the Commission in establishing rates and terms and conditions of service for NW Natural that are fair, just, and reasonable. While the settling parties have resolved most of the issues in this proceeding through a black box settlement,

there are a limited number of issues where no settlement was reached. As explained more fully below, AWEC respectfully requests that the Commission:

1. Approve the First Stipulation on the cost of long-term debt at 4.712 percent;
2. Approve the Second Stipulation that reduced NW Natural's filed case from $154.9 million to $95 million, established a return on equity at 9.4 percent, set the overall rate of return at 7.056 percent, and settled rate spread, among other contested issues;
3. Authorize NW Natural to increase its revenue requirement by $95 million as provided in the Second Stipulation, which already assumes that NW Natural's lobbying expense adjustment has been disallowed as recommended by the Coalition in its lobbying expense adjustment; and
4. Reject NW Natural's proposed revisions to the AAC because its proposed revisions do not fairly balance the interest of ratepayers and shareholders. The AAC, as it is currently designed, is single issue ratemaking that allows rate changes between rate cases. The AAC already benefits NW Natural, and NW Natural failed to demonstrate that its proposed revisions are fair, just and reasonable.

III. ARGUMENT

A. The Commission Should Adopt the First Stipulation and the Second Stipulation

AWEC supports the First Stipulation and the Second Stipulation and recommends that the Commission approve both stipulations in their entirety. The First Stipulation was a result of early settlement discussions and covers only the cost of NW Natural's long-term debt. In NW Natural's filing, it proposed the cost of long-term debt at 4.712 percent, which was based on a calculation that incorporates both existing debt and forecasted debt. AWEC was comfortable that the cost of long-term debt contained in NW Natural's initial filing was reasonable based on the information provided by NW Natural in its filing and through discovery. AWEC requests that the

Commission approve the First Stipulation as it is a reasonable compromise on that issue.

The Second Stipulation was entered into almost five months after the First Stipulation, and after the parties filed multiple rounds of testimony, conducted extensive discovery, and engaged in multiple settlement conferences. The Second Stipulation also incorporates the results of the settlement reached by AWEC, Staff, and NW Natural in NW Natural's companion Docket No. UM 2309, where NW Natural proposed to revise its deprecation rates. The Second Stipulation resolves almost all the issues in this docket through a black box settlement, including the Company's revenue requirement; cost of capital and capital structure; capital projects and capital additions, including officer attestations; rate spread and rate design; the Income Qualified Bill Discount Program and associated cost recovery, and the Arrearage Management Program ("AMP") for Tier 0 customers.

AWEC supports the Second Stipulation as a reasonable compromise of the issues that it raised in testimony, as well as through its involvement in NW Natural's companion depreciation Docket No. UM 2312. The Second Stipulation represents a major reduction to NW Natural's proposed revenue requirement, from a $154.9 million revenue requirement increase in its initial filing to a $95.0 million revenue requirement increase in the Second Stipulation. That represents a $59.9 million reduction to NW Natural's revenue requirement increase, inclusive of the settlement on depreciation rates reached in Docket UM 2312. In general, AWEC found this level of revenue requirement to be reasonable based on NW Natural's filed case and AWEC's analysis of the issues. While the Second Stipulation does not address all of the issues AWEC identified in its Opening Testimony and Rebuttal and Cross-Answering Testimony, the Second Stipulation includes a stable return on equity of 9.4 percent, which was an important consideration for AWEC to join the Second Stipulation. The overall rate of return was 7.056 percent, which is based on the 9.4 percent return on equity, a 50 percent common equity and 50 percent long-term debt capital structure, and the result of the First Stipulation.

In Opening Testimony, AWEC recommended the exclusion of test year capital additions and an AMA rate base valuation method. The Stipulating Parties, however, were not necessarily in agreement on the capital forecast included in the black box revenue requirement. But for purposes of implementing the Second Stipulation *only*, and for purposes of the ongoing litigation of the line extension policy *only*, the Stipulating Parties agreed that the revenue requirement assumes no capital projects will go into service after October 31, 2024, except for those related to customer growth in the Test Year. To be clear, AWEC did not agree to capital projects going into service after October 31, 2024, except for purposes of implementing further potential adjustments to the revenue requirement based on the resolution of the remaining contested issue around line extensions. AWEC found this to be reasonable because the black box settlement was silent on the treatment of capital projects after October 31, 2024, and allows the line extension issue argued by CUB and Coalition to continue.

The Stipulating Parties also agree that NW Natural will file officer attestations on or before October 4, 2024 and October 25, 2024, attesting to whether any projects forecast to cost over $1 million will be completed after October 31, 2024. To the extent there are such projects, those projects will be removed from rates. AWEC supports this settlement term because it confirms that all projects in rates satisfy the used and useful standard.

AWEC also found the settled rate spread to be reasonable because it recognizes that large volume customer classes are paying rates that are well above their cost of service as reflected in NW Natural's Long Run Incremental Cost Study and AWEC's study, and the settled rate spread allocated a smaller portion of the increase to those customers. While the rate increase and associated rate spread contained in the Second Stipulation allocated to large volume customers will not necessarily move large volume customers closer to parity as proposed by AWEC in its

testimony, the rate spread adopted in the Second Stipulation will not result in moving those customers further from parity. Adopting a reasonable rate spread was critical for AWEC to join the Second Stipulation.

Finally, the inclusion of a cap on the Income Qualified Bill Discount Program rates applicable to Schedules 31 and 32 was also an important consideration for AWEC because it provided certainty as to the amount of costs that will be collected from customers through those schedules. This is especially important because it is expected that the new Climate Protection Plan rules will be in effect on January 1, 2025, or soon thereafter, which has the potential to significantly increase rates for large volume customers.

In summary, AWEC supports the Second Stipulation, which is not opposed by any party. AWEC recommends the Commission find that the Second Stipulation is in the public interest because it results in rates that are fair, just and reasonable and recommends that the Commission approve it.

B. Coalition's Lobbying Expense Adjustment

The Coalition argues that NW Natural's Governmental Affairs / lobbying expense adjustment should be a shareholder cost and not a ratepayer cost. Without addressing the merits of that adjustment, AWEC notes that the $95 million revenue requirement settlement in the Second Stipulation already assumes that NW Natural's Government Affairs / lobbying expense amounts have been disallowed. As a result, if NW Natural prevails on recovery of those amounts, the revenue requirement will *increase*. The Commission should approve the $95 million revenue requirement increase provided in the Second Stipulation as those rates are fair, just and reasonable. The $95 million revenue requirement increase already assumes that NW Natural's Government Affairs / lobbying expense adjustment has been disallowed. Therefore, adding those expenses back in would only result in a higher rate burden for ratepayers.

C. The Commission Should Reject NW Natural's Proposed Revisions to the AAC

NW Natural argues that its proposed revisions to its AAC are intended to address regulatory lag and to remove so-called disincentives for the Company in the Schedule 198 earnings test. NW Natural, however, has not presented a compelling case to justify its proposed changes to the AAC.

An AAC essentially amounts to single-issue ratemaking, allowing a utility to adjust rates outside of the general rate case process. NW Natural controls the timing of its investments and has the opportunity to file a rate case at any time, leading to an unbalanced approach where it can avoid filing a rate case when its revenue requirement may have decreased, while still recovering additional revenues through the AAC. Single-issue ratemaking typically benefits only shareholders because it ignores other factors that otherwise influence and potentially decrease the utility's operating results.

Currently, NW Natural is not permitted to defer, for later cost recovery, the costs of its RNG investments for the *limited* time between the investment's in-service date and the rate effective date. This was a litigated outcome in Docket No. UG 435, and NW Natural is requesting the Commission reevaluate its decision in that docket.[1] NW Natural argues that this type of regulatory lag prevents the Company from fully recovering its costs. AWEC disagrees and supports the arguments of Staff and CUB opposing NW Natural's revisions to its AAC.

Further, NW Natural is proposing certain adjustments to the earnings test for Schedule 198. NW Natural, however, has not presented evidence sufficient to justify changing the earnings test, and AWEC supports Staff's and CUB's arguments in opposition. The AAC was designed to provide a benefit to customers through the earnings test, and the earnings test was approved by the

[1] See Docket No. UG 435, Order 22-388.

Commission in Docket No. UG 435.[2] The Commission should not make the AAC more favorable to NW Natural to the detriment of customers.

D. Other Contested Issues

AWEC reserves the right to address the other contested issues in its Closing Brief.

IV. CONCLUSION

AWEC urges the Commission to approve both the First Stipulation and the Second Stipulation because they result in rates that are fair, just, and reasonable. The First and Second Stipulations are a fair resolution of the issues in this docket and are not opposed by any party. The Commission should also approve only the $95 million revenue requirement increase in the Second Stipulation that already assumes the NW Natural's lobbying expense adjustment has been disallowed as recommended by the Coalition. AWEC takes no position on the Third Stipulation.

The Commission should also decline to approve NW Natural's proposed modifications to the AAC. The Commission previously approved the AAC in Docket No. UG 435, and NW Natural is seeking to revise the AAC to make it more favorable to NW Natural to the detriment of customers. NW Natural's proposed revisions are not in the public interest and should be rejected.

Dated this 15th day of August 2024.

Respectfully submitted,

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[2] *Id.*