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August 15, 2024

VIA E-MAIL TO

Public Utility Commission of Oregon
Filing Center
201 High Street SE, Suite 100
Salem, Oregon 97301-3398

**Re: Docket No. UG 490 – In the Matter of Northwest Natural Gas Company, dba
NW Natural, Request for a General Rate Revision.**

Attention Filing Center:

Attached for filing in the above-referenced docket, please find NW Natural Gas Company's Opening Brief.

Please contact this office with any questions.

Sincerely,

A handwritten signature in blue ink that reads "Cole Albee".

Cole Albee
Paralegal
McDowell Rackner Gibson PC

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 490

In the Matter of

NW NATURAL GAS COMPANY D/B/A
NW NATURAL

Request for a General Rate Revision

**NORTHWEST NATURAL GAS
COMPANY'S OPENING BRIEF**

August 15, 2024

TABLE OF CONTENTS

I.	INTRODUCTION AND EXECUTIVE SUMMARY	1
II.	POLICY CONTEXT FOR NW NATURAL’S PROPOSALS IN THIS CASE ...	7
III.	ARGUMENT ON REMAINING LITIGATED ISSUES	14
A.	Decoupling and New Premises Customer Charge	14
1.	Summary of the Company’s Decoupling and Rate Design Proposals	15
2.	NW Natural’s decoupling and rate design proposals reflect current usage trends and principles of cost causation, and protect existing customers, consistent with the Company’s responsible growth strategy—and are responsive to a past issue raised by Staff.	18
3.	The Commission should adopt NW Natural’s proposal to use November 1, 2024 as the demarcation date for bifurcating the decoupling mechanism.	20
4.	The Commission should adopt NW Natural’s proposal for a New Premises Customer Charge.	24
a.	The New Premises Customer Charge is necessary to address intra-class subsidization and is consistent with the ratemaking principles of fairness and equity.....	25
b.	Staff and CUB’s argument that new premises customers will pay more for service is misleading and ignores differences in usage between the existing premises and new premises cohorts.....	26
c.	Using typical usage values defined as the average annual weather normalized UPC specific to each cohort’s observed usage behavior to determine the impacts of the New Premises Customer Charge is justified.....	30
d.	Staff’s and the Coalition’s recommendation to address the UPC disparity in the new premises and existing premises cohorts in the decoupling baseline only is inadequate.	35
e.	The analyses for the New Premises Customer Charge and the LEA are distinct and should not impact one another. ...	37
B.	Line Extension Allowance	38
1.	Background regarding LEAs	44
2.	The Company’s proposed LEA is the right policy choice.	46
a.	NW Natural’s LEA proposal complies with the Commission’s direction in Order No. 22-388.	47

b.	NW Natural’s LEA proposal is consistent with NW Natural’s and the State of Oregon’s GHG emissions reductions goals.	54
i.	NW Natural can responsibly grow and meet future emissions reductions targets.	55
ii.	The laws, policies, and precedent from other states concerning LEAs are inapposite.	58
iii.	Oregon’s policy context does not support such an extreme measure as elimination of the LEA.	60
c.	The LEA benefits all customers by lowering system costs and avoiding intra-class subsidization.	61
3.	The Company’s LEA modeling assumptions are reasonable and supported by the record.	62
a.	The LEA’s 25-year term is reasonable.	63
b.	There is no evidence that customers will electrify to avoid costs associated with natural gas service resulting from the Company’s proposed New Premises Customer Charge. ...	66
c.	Costs of GHG emissions reduction compliance and RNG included in the LEA calculation are reasonable.	67
d.	The non-growth capital expenditures input demonstrates how new customers will contribute to these costs to the benefit of existing customers.	69
e.	The LEA calculation is not significantly affected by periods during which a home may be unoccupied.	70
f.	The LEA model proposed by the Company is flexible and adaptable.	71
C.	Schedule X Administration.	72
1.	Background regarding Schedule X.	73
2.	NW Natural consistently has complied with the provisions of Schedule X and administered LEAs prudently in a way that benefits existing customers.	76
3.	The Commission should reject the Coalition and CUB’s inappropriate proposal to remove previously approved amounts from rate base.	79
a.	The Coalition and CUB improperly seek to relitigate an issue that was resolved in prior rate cases.	80
b.	The Coalition and CUB’s requested relief is impermissible retroactive ratemaking.	82

c.	Removing previously approved plant from rate base would undermine regulatory certainty and decrease investor confidence in Oregon’s regulatory environment.	84
4.	There is no need for the Commission to open an investigation or audit into the Company’s LEA practice, and any change in policy should be limited in scope and prospective in nature.....	85
D.	RNG AAC	86
1.	Background regarding RNG AAC.....	87
2.	A deferral or expansion of Schedule 198’s filing timeline will allow the Company to request prudently incurred costs of obtaining RNG.	88
a.	The use of a deferral for the RNG AAC will not result in NW Natural favoring RNG over other least cost/least risk decarbonization pathways.....	88
b.	Schedule 198 should include a deferral, similar to the Renewable Resources Adjustment Clauses (“RRACs”) for electric utilities.	89
c.	The use of a deferral strikes the appropriate balance between customers and the Company.	91
d.	If the Commission declines to adopt a deferral, the Commission should allow for more flexible timing for the RNG AAC filing.....	93
3.	The current earnings test inadvertently creates a disincentive to producing more RNG than forecasted, even when it is cost-effective and for the benefit of customers.....	94
E.	Oregon Low-Income Energy Efficiency Program	98
1.	Background regarding the OLIEE program.....	99
2.	Response to the Coalition’s arguments.....	100
F.	Lobbying / Political Activities	105
1.	Background regarding Commission Order No. 22-388, 18 CFR § 367.4264, and the Company’s General Procedure.	107
2.	The General Procedure properly guides employees in identifying political activities for exception time reporting.	109
a.	The General Procedure’s definition of lobbying communications is consistent with 18 CFR § 367.4264 and Order No. 22-388.	110
b.	Informational communications with public officials do not constitute lobbying.....	113

c.	Recoverable communications with public officials are not limited to those that are required to provide safe and adequate service to customers.....	114
3.	The Company has properly tracked exception time.	115
a.	NW Natural’s exception time tracking contains sufficient information to clarify the nature of communications between NW Natural and government officials.	116
b.	NW Natural is robustly tracking exception time despite certain entries including blank “notes” fields in exception time reports.	117
c.	The Commission should not require NW Natural’s Government Affairs team to track and report time associated with its core utility activities.....	118
d.	The Commission should reject the Coalition’s recommendation to require an additional annual reporting requirement.	119
4.	The Commission should allow NW Natural to recover its Government Affairs team budget for time spent on core utility functions.....	120
G.	Rate Shock	123
1.	After reflecting the results of the Second Stipulation and PGA, CUB’s rate shock proposal is moot.	124
2.	The Commission does not consider rate shock in setting revenue requirement.	124
3.	The Commission should reject CUB’s proposed rate shock mitigation mechanism.	125
a.	CUB’s proposed rate shock threshold inappropriately compares regulated utilities’ operations to less regulated private rental housing and ignores historic rate changes.	126
b.	The Commission should reject CUB’s recommended rate shock mitigation mechanisms.....	129
H.	Multi-Year Rate Plan.....	137
IV.	CONCLUSION	139

TABLE OF AUTHORITIES

Cases	Page(s)
US Supreme Court	
<i>Bluefield Water Works Co. v. Public Serv. Comm’n</i> , 262 US 679 (1923).....	131, 134
<i>Duquesne Light Co. v. Barasch</i> , 488 US 299 (1989).....	131, 132
<i>Federal Power Comm’n v. Hope Nat. Gas Co.</i> , 320 US 591 (1944).....	130, 131, 134
<i>Smyth v. Ames</i> , 169 US 466 (1898).....	131
Oregon	
<i>Gearhart v. PUC</i> , 356 Or 216 (2014).....	83
<i>Hammond Lumber Co. v. Public Serv. Comm’n</i> , 96 Or 595 (1920).....	131
<i>Nw. Nat. Gas Co. v. Env’t Quality Comm’n</i> , 329 Or App 648 (2023)	40
<i>Pacific Tel. & Telegraph v. Wallace</i> , 158 Or 210 (1938).....	131
Public Utility Commission of Oregon Orders	
<i>In re Avista Corporation, dba Avista Utilities, Request for a General Rate Revision (UG 288) and Application for Authorization to Defer Expenses or Revenues Related to the Natural Gas Decoupling Mechanism (UM 1753)</i> , Dockets UG 288, UM 1753, Order No. 16-109 (Mar. 15, 2016)	79
<i>In re Nw. Natural Gas Co. dba NW Natural Request for Amortization of Certain Deferred Accounts Related to Gas Costs, Schedules P, 162, 164</i> , Docket UG 486, Order No. 23-387 (Oct. 26, 2023).....	128
<i>In re Northwest Natural Gas Co., dba NW Natural, Request for a General Rate Revision</i> , Docket UG 435, Order No. 22-388 (Oct. 24, 2022).....	<i>passim</i>

<i>In re PacifiCorp, dba Pacific Power, Advice No. 23-018 (ADV 1545), Modifications to Rule 4, Application for Electrical Service, Docket UE 428, Order No. 24-155 (May 30, 2024)</i>	127
<i>In re Portland Gen. Elec. Co., Request for a General Rate Revision, Docket UE 435, Order No. 24-110 (Apr. 25, 2024)</i>	133
<i>In re PacifiCorp, dba Pacific Power, Request for General Rate Revision, Docket UE 374, Order No. 20-473 (Dec. 18, 2020)</i>	78, 79, 136
<i>In re Portland Gen. Elec. Co.’s Application for an Accounting Order and for Order Approving Tariff Sheets Implementing Rate Reduction, Docket UM 989, Order No. 08-487 (Sept. 30, 2008)</i>	<i>passim</i>
<i>In re Portland General Electric Company Application to Amortize the Boardman Deferral, Docket UE 196, Order No. 10-051 (Feb. 11, 2010)</i>	80
<i>In re Portland General Electric Company's Proposal to Restructure and Reprice Its Services in Accordance with the Provisions of SB 1149, Docket UE 115, Order No. 01-988 (Nov. 20, 2001)</i>	125, 134
<i>In re Portland Gen. Elec. Co., Request for a General Rate Revision; and 2024 Annual Power Cost Update, Docket UE 416, Order No. 23-477 (Dec. 18, 2023)</i>	81
<i>In re Portland Gen. Elec. Co.; Request for a General Rate Revision (UE 180), Annual Adjustments to Schedule 125 (2007 RVM Filing) (UE 181), Request for a General Rate Revision relating to the Port Westward Plant (UE 184), Dockets UE 180, UE 181, and UE 184, Order No. 07-015 (Jan. 12, 2007)</i>	131
Other Public Utility Commission Decisions	
<i>In re Order Instituting Rulemaking Regarding Building Decarbonization, Cal. PUC Rulemaking 19-01-011, Decision 22-09-026 (Sept. 20, 2022)</i>	59
<i>In re Atmos Energy Corporation’s Application to Open Demand-Side Management Strategic Issues Proceeding, Colo. PUC, Proceeding No. 23A-0216G, Recommended Decision No. R24-0016 (Jan. 9, 2024)</i>	101, 102
<i>Investigation by the Department of Public Utilities on its own Motion into the role of gas local distribution companies as the Commonwealth achieves its target 2050 climate goals, Mass. D.P.U. Order No. 20-80-B (Dec. 6, 2023)</i>	60

Statutes

ORS 90.324(1)(a)-(b) 126
ORS 183.482(1) 81
ORS 757.210(1)(a)..... 139
ORS 757.215(1)..... 129, 130
ORS 757.315(3) 99
ORS 757.390 – 398..... 87

Oregon Administrative Rules

OAR 860-001-0720(1)..... 81
OAR 860-021-0050(1)..... 44, 73

Regulations

18 CFR § 367.4264 *passim*

Constitutional Provisions

Fifth Amendment..... 131
Fourteenth Amendment..... 131

Other Authorities

James C. Bonbright et al., *Principles of Public Utility Rates* (2d ed.1988)..... 25
Op Atty Gen OP-6454, 1992 Ore. AG LEXIS 19 (1992)..... 80
Or. Pub. Util. Comm'n, *SB 978 Actively Adapting to the Changing Electricity Sector* (Sept. 2018) 132
California Senate Bill 1477 59
Cal. Pub. Util. Code § 921.1(a)(1) 59
Cal. Pub. Util. Code § 922(a)(1) 59

1 **I. INTRODUCTION AND EXECUTIVE SUMMARY**

2 Northwest Natural Gas Company, dba NW Natural (“NW Natural” or “Company”),
3 requests a general rate revision in this proceeding to secure revenues necessary to
4 provide safe and reliable natural gas service to customers in Oregon, while preserving
5 the Company’s ability to attract capital for future investments. This rate case is driven by
6 inflationary pressures across the Company’s system that have resulted in higher
7 operating costs for the Company. In addition, the Company seeks to recover the costs
8 of long planned investments that ensure safe and reliable service to its customers. NW
9 Natural is seeking to increase rates so that it can maintain its strong financial health and
10 stable credit ratings, thereby securing access to capital markets, and ultimately to
11 continue to provide low-cost, safe, and reliable utility service to customers.

12 The parties to this case—Staff of the Public Utility Commission of Oregon (“Staff”),
13 the Oregon Citizens’ Utility Board (“CUB”), the Alliance of Western Energy Consumers
14 (“AWEC”), and the Coalition of Communities of Color, Climate Solutions, Verde, Columbia
15 Riverkeeper, Oregon Environmental Council, Community Energy Project, and Sierra Club
16 (collectively, “the Coalition”)—participated in multiple, settlement discussions. As a result,
17 parties entered three multi-party stipulations and collaboratively resolved several issues
18 in this case, and every party joined at least one stipulation.

19 NW Natural, Staff, CUB, and AWEC settled one component of cost of capital—the
20 cost of long-term debt—in the First Multi-Party Partial Stipulation filed with the
21 Commission on February 26, 2024 (“First Stipulation”). While the Coalition is not a party
22 to the First Stipulation, the Coalition does not oppose the First Stipulation.

1 In the Second Partial Stipulation filed with the Commission on July 24, 2024
2 (“Second Stipulation”), NW Natural, Staff, CUB, AWEC, and the Coalition resolved a
3 number of issues in this docket, including the Company’s revenue requirement; cost of
4 capital and capital structure; capital projects and capital additions; rate spread and
5 aspects of rate design; the Residential Bill Discount Program, the arrearage management
6 program for Tier 0 customers, and cost recovery for the Residential Bill Discount Program.

7 Finally, in the Third Partial Stipulation filed with the Commission on August 12,
8 2024 (“Third Stipulation”), NW Natural, CUB, and the Coalition resolved the issue related
9 to the Company’s post-enrollment verification process for its the Residential Bill Discount
10 Program.

11 The remaining issues requiring Commission resolution are:

- 12 (1) NW Natural’s proposed monthly fixed rate charge for new residential
13 premises customers connected on or after November 1, 2024 and the
14 demarcation date for bifurcating the decoupling mechanism;
- 15 (2) The Company’s updated Line Extension Allowance (“LEA”) proposal for
16 new customers;
- 17 (3) CUB and the Coalition’s proposal to remove from rate base previously
18 approved amounts relating to the Company’s administration of its LEA
19 for 2018 – 2023;
- 20 (4) The Company’s proposed improvements to its Renewable Natural Gas
21 (“RNG”) Automatic Adjustment Clause (“AAC”);
- 22 (5) The Coalition’s improper suggestion that the Company use Oregon Low-
23 Income Energy Efficiency (“OLIEE”) program funds for electrification;

1 (6) The Coalition’s proposed disallowance of the Company’s entire
2 Government Affairs team budget; and

3 (7) CUB’s “rate shock” mitigation proposal.

4 Although it does not directly impact this case, the Company also includes
5 discussion on its potential future multi-year rate plan proposal. On these remaining
6 issues, NW Natural respectfully requests that the Commission rule as follows:

7 • First Stipulation: The Commission should approve the First Stipulation
8 without modification because it represents a reasonable resolution of the
9 issue of cost of long-term debt.

10 • Second Stipulation: The Commission should approve the Second
11 Stipulation without modification because it represents a reasonable
12 compromise between the parties’ positions on revenue requirement; cost of
13 capital and capital structure; capital projects and capital additions; rate
14 spread and aspects of rate design; the Residential Bill Discount Program,
15 the arrearage management program for Tier 0 customers, and cost
16 recovery for the Residential Bill Discount Program, and results in fair and
17 just rates.

18 • Third Stipulation: The Commission should approve the Third Stipulation
19 without modification because it represents a reasonable resolution on the
20 issue of whether the Company will conduct post-enrollment verification for
21 participants in its Residential Bill Discount Program.

22 • Rate Design/Decoupling: The Commission should adopt the Company’s
23 rate design proposal, including a monthly fixed rate charge of \$24.50 for

1 new, single-family premises and \$22.50 for new, multi-family premises in
2 order to address intra-class subsidization. Moreover, the Commission
3 should adopt the Company's proposed decoupling mechanism that
4 bifurcates customers residing in premises connected to the system on or
5 after November 1, 2024 to avoid retroactively moving customers into a
6 different decoupling group and creating misalignment with the Company's
7 revenue requirement outcome.

- 8 • Line Extension Allowance: The Commission should approve NW Natural's
9 new LEA proposal, because it aligns with the Company's vision for the
10 future of the gas system where customers consume less throughout the
11 year, but still rely on it for the winter peak performance of gas furnaces and
12 fireplaces, and other customer preference features like gas cooktops and
13 tankless water heaters. The proposed LEA incorporates the likely costs of
14 greenhouse gas ("GHG") emissions reduction compliance the Company will
15 face and the incremental increases of those costs as a result of new
16 customers joining the system and ensures that existing customers do not
17 bear additional costs to support those new customers, addressing key
18 issues raised by the Commission when discussing the Company's LEA in
19 its last rate case. Because the Company has constructed an LEA that
20 promotes responsible growth and appropriately reflects the best available
21 information concerning GHG emissions compliance costs, the Commission
22 should reject Staff's and the Coalition's proposals to eliminate the
23 Company's LEA because they are inconsistent with sound economic

1 principles on which this Commission's LEA policies are based and their
2 specific proposals and critiques of NW Natural's LEA calculation also are
3 not valid. The Commission should also reject Staff's alternative
4 recommendation and CUB's recommendation to phase out the LEA over a
5 series of years for the same reasons. The record does not support the
6 customer attrition concerns motivating Staff's, CUB's and the Coalition's
7 proposals.

- 8 • Schedule X Administration: The Commission should find NW Natural's
9 administration of Schedule X, its line extension allowance tariff, is prudent,
10 reasonable, and consistent with the tariff's language. The Commission
11 should reject the Coalition and CUB's request to remove rate base that was
12 found prudent and approved in prior Commission orders, because this
13 adjustment would upset three past stipulations and undermine regulatory
14 certainty in Oregon.
- 15 • RNG AAC: The Commission should adopt the Company's proposed
16 changes to the Schedule 198 earnings test to add a deferral to allow the
17 Company to recover costs incurred between the in-service date and the rate
18 effective date for projects that are placed in service during the Test Year
19 and for which costs are currently non-recoverable, and to remove the
20 deadbands 50 basis points above and below the Company's authorized
21 return on equity ("ROE") and instead set the earnings test at authorized
22 ROE.

- 1 • Oregon Low-Income Energy Efficiency Program: The Commission should
2 decline to change the OLIEE program to require program funds to be used
3 for electrification of NW Natural’s customers. In addition to the legal and
4 policy reasons to decline the proposal, the Coalition’s proposal is
5 unnecessary considering alternative funding sources for electrification and
6 would result in harm to the Company’s remaining customer base. NW
7 Natural’s OLIEE program is providing benefits to NW Natural’s customers,
8 and the Commission should allow the program to continue in its current form
9 without modification.
- 10 • Lobbying/Political Activities: The Commission should allow NW Natural to
11 properly recover its Government Affairs expense of \$1,725,922, taking into
12 account Staff’s recommended Oregon-allocated adjustment of \$11,572,
13 which the Company does not oppose—for a total of \$1,714,350. This
14 amount accurately reflects the costs for the Government Affairs team’s time
15 spent engaging in core utility functions, which are appropriately
16 recoverable, and also the Company’s removal of \$625,160 of exception
17 time reported in the Base Year for which the Company has not sought
18 recovery in this case. The Commission should reject the Coalition’s overtly
19 punitive recommendation to disallow the entire Government Affairs budget
20 because the Company has made substantial efforts to comply with the
21 Commission’s directive in Order No. 22-388 to track and report exception
22 time. The Commission should also reject the Coalition’s proposal that NW
23 Natural track and report time for the Government Affairs team’s core utility

1 activities because the proposal far exceeds the direction provided to NW
2 Natural in Order No. 22-388 and is unsupported by the record in this case.

- 3 • Rate Shock: The Commission should reject CUB's proposal to apply a 10
4 percent rate shock threshold as moot in light of the Second Stipulation and
5 Purchased Gas Adjustment ("PGA") reducing the customer bill impact to 7.0
6 percent for residential customers. The Commission should also reject
7 CUB's proposal to set a cap on the Company's rate increases, ignoring the
8 fair, just and reasonable standard and violating the regulatory compact that
9 balances the interests of customers with the financial integrity of the
10 Company. The Commission should further decline to impose a delay on the
11 Company's rate increases, as such action will cause the Company to under-
12 recover its prudently incurred costs.
- 13 • Multi-Year Rate Plans: While there was limited engagement from the parties
14 regarding the use of multi-year rate plans in future rate case proceedings,
15 the Company continues to see the benefits of multi-year rate plans for
16 customers, participants in rate case dockets, and utilities. NW Natural
17 intends to pursue multi-year rate plans in the future and requests that the
18 Commission provide guidance based on the record developed in this case.

19 **II. POLICY CONTEXT FOR NW NATURAL'S PROPOSALS IN THIS CASE**

20 NW Natural recognizes that the Company is undergoing fundamental changes as
21 the decarbonization of the State's economy, including the natural gas system, begins to
22 accelerate.¹ Since the Company presented its last rate case in docket UG 435, there have

¹ NW Natural/100, Palfreyman-Kravitz/7.

1 been major shifts in the landscape for the provision of natural gas service that have
2 informed the Company’s proposals in this case. As the Company prepared its initial filing,
3 it included proposals based on the Climate Protection Program (“CPP”), including a
4 modified LEA proposal responsive to the Commission’s direction in Order No. 22-388 for
5 the Company to factor in the costs associated with CPP compliance.² Shortly after the
6 Company finalized its Direct Testimony in this case, in late December 2023, the CPP was
7 invalidated.³ The Oregon Department of Environmental Quality (“ODEQ”) has since
8 initiated a rulemaking process, and it is anticipated that there will likely be new CPP GHG
9 emissions reduction rules in place in late 2024.⁴ In other words, the rules that may shape
10 the Company’s decarbonization compliance obligations have not yet been finalized, and
11 the contours of the Company’s compliance obligations under the new rules have not yet
12 been defined.

13 In the face of this policy uncertainty surrounding decarbonization, NW Natural is
14 also observing greater reliance on the gas energy system during winter peak events, and
15 the Company must continue to provide safe and reliable service to its customers.⁵ The
16 Company cannot compromise safety or reliability by failing to make prudent investments
17 in its system or refusing to incur necessary operations and maintenance (“O&M”)
18 expenses.⁶ The consequences of under-investment and inadequate O&M go far beyond
19 the financial considerations faced by most companies.⁷ In NW Natural’s case, failing to

² NW Natural/1900, Therrien/27-29.

³ NW Natural/2000, Kravitz-Therrien/2-3.

⁴ NW Natural/3600, Kravitz-Griffiths/4.

⁵ NW Natural/100, Palfreyman-Kravitz/25-26.

⁶ NW Natural/100, Palfreyman-Kravitz/5.

⁷ NW Natural/100, Palfreyman-Kravitz/5.

1 invest in the safety and reliability of its system can lead to customers or members of the
2 general public suffering serious injury or even death.⁸ The Company’s public safety
3 responsibility is paramount, and it will continue to prudently invest in its system to ensure
4 the safe and reliable delivery of energy to homes and businesses in Oregon.⁹

5 However, decarbonization and winter peak demands are not the only factors
6 driving fundamental change. A renewed focus on equity prompted by the passage of HB
7 2475 in 2021 is also a major shift in Oregon utility regulation.¹⁰ Since NW Natural’s last
8 general rate case, NW Natural has established a residential bill discount program,¹¹ which
9 the parties to this proceeding have agreed to enhance as part of the Second Partial
10 Stipulation¹² and established a Community Equity Advisory Group (“CEAG”), among
11 other activities.¹³ The CEAG is comprised of community-based organizations (“CBOs”)
12 that have not been involved in energy planning and Company program planning
13 opportunities, especially those CBOs that serve an identity, community and
14 underrepresented/underserved population present within NW Natural’s service territory
15 in Oregon and Washington.¹⁴ The CEAG is integrated into many initiatives across the
16 Company, including low-income programs, renewable resource development, and
17 philanthropic investment.¹⁵

⁸ NW Natural/100, Palfreyman-Kravitz/5.

⁹ NW Natural/100, Palfreyman-Kravitz/5.

¹⁰ HB 2475 provides the Commission the authority to consider differential energy burdens on low-income customers and other economic, social equity or environmental justice factors in ratemaking.

¹¹ NW Natural/200, Tanaka/15.

¹² Second Stipulation at 6-7.

¹³ NW Natural/200, Tanaka/2-4.

¹⁴ NW Natural/200, Tanaka/4-5.

¹⁵ NW Natural/200, Tanaka/3.

1 NW Natural is adapting its business model to these ongoing fundamental changes.
2 These three commitments—safe and reliable service, decarbonization, and equity—must
3 be pursued affordably and in the framework of the regulatory compact, ensuring that a
4 public utility can remain financially healthy and able to access capital markets. As the
5 Company advances in the transition to a decarbonized economy focused on equity, NW
6 Natural is not taking a “business as usual” approach and must have the ability to adapt to
7 changing conditions by pursuing new policies and initiatives, such as a new residential
8 premises fixed charge and a low-use LEA.¹⁶ These new policies and initiatives are
9 grounded in the same sound economic principles that have always been used in
10 ratemaking, while also reflecting underlying changes that are occurring during these
11 transformative times, including new premises’ lower natural gas use and the impact of
12 future Oregon GHG regulations.¹⁷ It is imperative that the Commission provide space for
13 NW Natural to innovate and adapt its business to these changing circumstances.¹⁸ And
14 in this case, these adaptations should be approved by the Commission because they are
15 based on sound economic analysis, designed to protect customers, and responsive to
16 NW Natural’s current operating environment.

17 First, the proposed fixed charge for new premises residential customers is
18 designed to address intra-class equity concerns between existing and new residential
19 customers.¹⁹ The proposal evolved out of the Company’s most recent rate case (docket
20 UG 435), in which Staff provided testimony regarding the Company’s decoupling

¹⁶ NW Natural/2200, Kravitz/21.

¹⁷ NW Natural/2200, Kravitz/21.

¹⁸ NW Natural/4400, Kravitz/5.

¹⁹ NW Natural/100, Palfreyman-Kravitz/29.

1 mechanism. Staff highlighted a concern that the use per customer (“UPC”) of new
2 residential customers joining the system is materially lower than the decoupling baseline
3 UPC for existing residential customers.²⁰ After the conclusion of docket UG 435, NW
4 Natural closely analyzed the differences in the weather normalized UPC among new and
5 existing residential customers.²¹ Residential customers in newly connected premises
6 have an annual UPC of approximately 449.4 therms and residential customers in existing
7 premises have an annual UPC of approximately 660.2 therms.²² No party disputes the
8 Company’s UPC calculations for new and existing residential customers. With no change
9 to the Company’s rate design, this usage disparity of approximately 210.8 therms results
10 in residential customers in existing premises subsidizing the cost of service for residential
11 customers in newly connected premises on every therm they consume.²³

12 To remedy this inequitable and persistent intra-class subsidy, the Company
13 proposed a solution in this proceeding: a new monthly fixed charge which is set to reflect
14 the difference in the UPC for new residential customers compared to existing residential
15 customers.²⁴ The fixed charge will ensure that new customers as a group are contributing
16 equivalent contributions for their cost of service as existing customers, while preserving
17 the decoupling mechanism, which has been central to the Company’s conservation efforts
18 for more than two decades.²⁵ Importantly, this change will help ensure that new
19 customers joining the system will pay their cost of service rather than being subsidized

²⁰ NW Natural/100, Palfreyman-Kravitz/29.

²¹ NW Natural/1800, Wyman/3.

²² NW Natural/1800, Wyman/77.

²³ NW Natural/4800, Wyman-Walker/2.

²⁴ NW Natural/100, Palfreyman-Kravitz/30.

²⁵ NW Natural/100, Palfreyman-Kravitz/30.

1 by the Company's existing customers.²⁶ At the same time, it also promotes equity by
2 ensuring that existing premises customers are not subsidizing new premises customers
3 which are most likely to reside in census tracts that have on average a median household
4 income 29.0 percent higher than the state average.²⁷

5 In addition to the new premises residential fixed charge, NW Natural has made
6 another key policy proposal whereby the LEA amounts that new residential customers
7 receive increases with lower natural gas use.²⁸ The proposal was originally informed by
8 the CPP, however, when the CPP was invalidated, NW Natural stood by this methodology
9 and did not go back to a traditional LEA that incentivizes increased throughput.²⁹ Instead,
10 the Company used a proxy to estimate future compliance costs of a hypothetical GHG
11 regulatory program and developed a LEA based on fundamental regulatory principles—
12 illustrating the Company's commitment to using the LEA as a tool to attract lower usage
13 customers for responsible growth that balances decarbonization with promoting equity.³⁰
14 According to home builders at the Commission's public comment hearing on April 16,
15 2024, the Company's proposed LEA "will help[] control initial construction costs, provide[]
16 energy options to homeowners, and support[] broader housing market goals by making
17 homes more affordable and appealing."³¹

18 Making homes more affordable promotes equity, particularly in the current housing
19 market where home prices have increased rapidly in recent years.³² The revised line

²⁶ NW Natural/1800, Wyman/55-56.

²⁷ NW Natural/4800, Wyman-Walker/26.

²⁸ NW Natural/2200, Kravitz/22.

²⁹ NW Natural/2200, Kravitz/22.

³⁰ NW Natural/2200, Kravitz/22.

³¹ Staff/2200, Nottingham/3.

³² NW Natural/2200, Kravitz/22-23.

1 extension allowance will also ensure that the affordability and resiliency benefits of natural
2 gas appliances are not just for those wealthy enough to afford line extension construction
3 costs without any such allowance.³³ The nature of the Company's LEA, which increases
4 with less natural gas use, incentivizes the installation of such high-performing and resilient
5 natural gas appliances that can provide heating even in the event of a power outage.³⁴
6 Use of these very efficient appliances supports decarbonization while promoting equity
7 through home affordability and resiliency.³⁵ Furthermore, the Company also committed
8 to updating the LEA in future proceedings to ensure that its assumptions remain valid and
9 to be responsive to any material changes in the assumptions underlying the LEA.³⁶

10 Importantly, both of the Company's key policy proposals are grounded in
11 economics, and designed to ensure that there is no cross-subsidization between new and
12 existing customers.³⁷ Combining these policy initiatives with its efforts to decarbonize its
13 system through energy efficiency, decarbonized fuels, and hybrid electric/gas heating
14 solutions, the Company is moving forward towards a decarbonized and equitable future
15 in a thoughtful and innovative way that offers the greatest opportunity for energy resiliency
16 and reliability.³⁸

³³ NW Natural/2200, Kravitz/23.

³⁴ NW Natural/2200, Kravitz/22-23.

³⁵ NW Natural/2200, Kravitz/22-23.

³⁶ NW Natural/2200, Kravitz/22.

³⁷ NW Natural/2200, Kravitz/22.

³⁸ NW Natural/2200, Kravitz/22.

1 **III. ARGUMENT ON REMAINING LITIGATED ISSUES**

2 **A. Decoupling and New Premises Customer Charge**

3 The Commission should adopt the Company’s rate design proposals because
4 these proposals (the decoupling mechanism bifurcation and related proposal for a new
5 premises monthly fixed charge (“New Premises Customer Charge”)) promote just and
6 reasonable rates reflecting current usage trends and cost causation, and protect existing
7 customers, consistent with the Company’s responsible growth strategy. These proposals
8 are also responsive to an issue raised by Staff in docket UG 435 concerning trends in
9 customer usage.

10 Regarding decoupling, the Commission should adopt the Company’s proposal to
11 bifurcate existing premises residential customers from new premises residential
12 customers, as of the rate effective date of this docket (November 1, 2024), for purposes
13 of the decoupling revenue calculation.³⁹ The Commission should reject Staff’s argument
14 to retroactively define new premises customers as those residing in premises that
15 connected to NW Natural’s system as far back as January 1, 2018 because Staff’s
16 recommendation: (1) does not consider that those customers are already included in the
17 existing residential class UPC of 660.2 therms calculated for this proceeding and have
18 been for two rate cases prior to the current case, and (2) creates a misalignment between
19 the decoupling mechanism and the Company’s revenue requirement outcome in this
20 proceeding—failing to achieve Staff’s goal of a more accurate decoupling revenue
21 calculation.⁴⁰ For these reasons, the Commission should adopt the Company’s proposal

³⁹ NW Natural/1700, Walker/12.

⁴⁰ Staff/4200, Stevens/9.

1 to bifurcate the decoupling baseline prospectively at the rate effective date of this
2 proceeding.

3 Regarding the New Premises Customer Charge, the Commission should adopt the
4 Company's proposal for a monthly fixed rate charge of \$24.50 for new, single-family
5 premises and \$22.50 for new, multi-family premises in order to address intra-class
6 subsidization because: (1) the Company's rate design proposals are consistent with
7 ratemaking principles of fairness and equity, and the New Premises Customer Charge is
8 necessary to address intra-class subsidization; (2) Staff and CUB's argument that new
9 premises customers will pay more for service is misleading and ignores differences in
10 usage between the existing premises and new premises cohorts; (3) using typical usage
11 values defined as the average annual weather normalized UPC to determine the impacts
12 of the New Premises Customer Charge is justified and follows sound ratemaking
13 principles, and the use of common characteristics such as dwelling type and vintage in
14 ratemaking is neither arbitrary nor discriminatory; (4) Staff and the Coalition's
15 recommendation to address the UPC disparity in the new premises and existing premises
16 cohorts in the decoupling baseline only is inadequate; and (5) the analyses for rate design
17 and the LEA are distinct and should not impact one another, and contrary to Staff's claims,
18 NW Natural is not increasing the New Premises Customer Charge to drive a higher LEA.

19 1. *Summary of the Company's Decoupling and Rate Design Proposals*

20 The Company's initial rate design proposals were as follows:

- 21 1) Increase the monthly fixed charge for existing RS 2 Residential
22 customers residing in single-family dwellings from \$8.00 to \$10.00 in

- 1 order to collect more of its fixed costs on a per-customer, per-month
2 basis;⁴¹
- 3 2) Maintain the current residential monthly fixed charge of \$8.00 for existing
4 RS 2 Residential customers residing in multi-family dwellings to reflect
5 the comparatively lower cost of service for multi-family dwellings in
6 relation to single-family dwellings;⁴²
- 7 3) Bifurcate the residential class decoupling mechanism baseline into two
8 cohorts to account for differences in the usage profiles of existing
9 residential premises compared to new residential premises that are
10 connected to the system as of the rate effective date of this
11 proceeding;⁴³
- 12 4) Set a monthly fixed charge of \$26.25 for the new single-family residential
13 premises that equitably recovers the cost to serve these customers at
14 the proposed lower bifurcated decoupling mechanism baseline;⁴⁴ and
- 15 5) Set a monthly fixed charge of \$24.25 for new multi-family residential
16 premises which is based on the \$26.25 new single-family residential
17 premises monthly fixed charge, less the same \$2.00 per month
18 difference applied for existing RS 2 Residential customers residing in
19 multi-family dwellings.⁴⁵

⁴¹ NW Natural/4800, Wyman-Walker/4; NW Natural/3900, Wyman/23; NW Natural/1800, Wyman/60.

⁴² NW Natural/4800, Wyman-Walker/4; NW Natural/3900, Wyman/23; NW Natural/1800, Wyman/67-76.

⁴³ NW Natural/4800, Wyman-Walker/4-5; NW Natural/3900, Wyman/23-24; NW Natural/1700, Walker/8-15.

⁴⁴ NW Natural/4800, Wyman-Walker/5; NW Natural/3900, Wyman/24; NW Natural/1800, Wyman/76-79.

⁴⁵ NW Natural/4800, Wyman-Walker/5; NW Natural/3900, Wyman/24; NW Natural/1800, Wyman/78.

1 No party disputed NW Natural’s proposal to bifurcate the single-family and multi-
 2 family fixed charge, and to retain the monthly fixed charge for RS 2 Residential customers
 3 residing in multi-family dwellings at \$8.00 and to set the single-family residential monthly
 4 fixed charge at \$10.00.⁴⁶ While not explicitly included as part of the Second Stipulation,
 5 as described in the Joint Testimony in Support of the Second Stipulation, the parties agree
 6 that this issue is not being litigated.⁴⁷ Accordingly, the remaining disputed issues are
 7 (1) the appropriate date for bifurcating the decoupling mechanism baseline for new
 8 premises and existing premises customers, and (2) the Company’s proposal for the New
 9 Premises Customer Charge.

10 In Surrebuttal Testimony, NW Natural updated the above rate design proposals for
 11 each of the four residential sub-classes to reflect the incremental revenue requirement of
 12 \$95.0 million from the Second Stipulation.⁴⁸ The rates in Table 1 below are reflective of
 13 the settled rate spread in the Second Stipulation for the residential rate class as a whole
 14 and show that the volumetric price signal remains the same across all residential sub-
 15 classes.⁴⁹

Table 1. Residential Class Rate Design Proposal, Fixed Charge and Volumetric Rates, by Residential Customer Type Based on Second Multi-Party Stipulation (except where noted)⁵⁰

Residential Vintage	Dwelling Type	Monthly Fixed Charge	Volumetric Based Charge	
			Base Margin Rate	Total Billing Rate
Existing Premises	Single-Family	\$10.00	\$0.80079	\$1.41406

⁴⁶ NW Natural/3900, Wyman/29.

⁴⁷ Joint Testimony in Support of the Second Partial Stipulation at 6, 15-16 (Aug. 14, 2024).

⁴⁸ NW Natural/4800, Wyman-Walker/5.

⁴⁹ NW Natural/4800, Wyman-Walker/5-6.

⁵⁰ NW Natural/4800, Wyman-Walker/6.

Existing Premises	Multi-Family	\$8.00	\$0.80079	\$1.41406
New Premises	Single-Family	\$24.50*	\$0.80079	\$1.41406
New Premises	Multi-Family	\$22.50*	\$0.80079	\$1.41406

*Note: New Premises single- and multi-family monthly fixed charges not included in Second Stipulation.

1 Compared to the Company’s original proposal, each of the volumetric rates
2 presented in Table 1 are lower (for comparison, the Base Margin Rate was \$0.90649,
3 and the Total Billing Rate was \$1.51976).⁵¹ The updated New Premises Customer
4 Charge of \$24.50 and \$22.50 for both single- and multi-family dwellings is also lower
5 (compared to the Company’s original proposal of \$26.25 and \$24.25, respectively) as a
6 result of the stipulated revenue requirement.⁵² As discussed below, the Company’s
7 proposal constitutes sound rate design because it maintains the same volumetric price
8 signal for the residential rate class in order to promote a fair apportionment of revenue
9 requirement across the Residential rate class, while avoiding different volumetric price
10 signals on an intra-class level.⁵³

11 2. *NW Natural’s decoupling and rate design proposals reflect current usage*
12 *trends and principles of cost causation, and protect existing customers,*
13 *consistent with the Company’s responsible growth strategy—and are*
14 *responsive to a past issue raised by Staff.*

15 The Commission should adopt NW Natural’s rate design proposal because it
16 constitutes sound rate design by avoiding intra-class subsidization, is non-discriminatory
17 and is not arbitrary, and is responsive to issues raised by Staff in the Company’s most
18 recent rate case proceeding (docket UG 435). As detailed below, NW Natural’s proposals
19 appropriately reflect current usage trends that were previously identified by Commission

⁵¹ NW Natural/4800, Wyman-Walker/6.

⁵² NW Natural/4800, Wyman-Walker/6.

⁵³ NW Natural/1800, Wyman/79.

1 Staff as “too large to ignore.”⁵⁴ After further investigating these trends, the Company
2 agreed that a change was required to address intra-class subsidization from existing
3 customers to new customers.⁵⁵ To promote equitable treatment of its customers, the
4 Company proposes to bifurcate its residential decoupling mechanism baseline to reflect
5 two cohorts of residential customers based on the premises where they reside:
6 (1) existing residential premises that either currently take service or will take service on
7 RS 2 Residential prior to November 1, 2024 (customers residing at these premises have
8 an expected average weather normalized UPC of 660.2 therms); and (2) new residential
9 premises that do not currently take any service on the Company’s system and are
10 connected on or after November 1, 2024 (future customers that will reside at these
11 premises have a forecasted expected average weather normalized UPC of 449.4
12 therms).⁵⁶

13 Importantly, however, under the Company’s current decoupling mechanism, all
14 residential customers are decoupled to a single baseline, which will overstate residential
15 usage between rate case proceedings for new premises customers.⁵⁷ This mismatch in
16 usage and the decoupling baseline for new premises customers drives a larger regulatory
17 asset for the decoupling deferral, which in turn impacts higher use (existing premises
18 cohort) customers more than lower use (new premises cohort) customers because the
19 deferral gets recovered through the volumetric rate.⁵⁸ To address this persisting intra-

⁵⁴ NW Natural/1700, Walker/10-12; NW Natural/4800, Wyman-Walker/20-21; NW Natural/4803, Wyman-Walker/3 (“Staff is concerned that the difference in usage between new customers coming on NW Natural’s system and existing customers is too large to ignore. Failure to distinguish between new and established customer usage may overstate the impact of lower average use per customer under certain conditions.”).

⁵⁵ NW Natural/1800, Wyman/60-75.

⁵⁶ NW Natural/4800, Wyman-Walker/10.

⁵⁷ NW Natural/3900, Wyman/34-35.

⁵⁸ NW Natural/4800, Wyman-Walker/17-18.

1 class subsidization when implementing the proposal to bifurcate the decoupling
2 mechanism, the Company simultaneously proposes the New Premises Customer Charge
3 of \$24.50 for new, single-family premises and \$22.50 for new, multi-family premises.⁵⁹
4 The New Premises Customer Charge ensures that residential customers residing in
5 premises newly connected to the system are providing equivalent contributions for their
6 cost of service as existing premises customers, and ensures that existing premises
7 customers are not subsidizing new premises customers.⁶⁰

8 3. *The Commission should adopt NW Natural's proposal to use November 1,*
9 *2024 as the demarcation date for bifurcating the decoupling mechanism.*

10 The Company proposes to bifurcate existing residential customers from new
11 premises residential customers, as of the rate effective date of this docket (November 1,
12 2024), for the decoupling revenue calculation.⁶¹ The new premises residential customers'
13 decoupling baseline was based on usage data from the five-year period of January 2018
14 to December 2022 and is 449.4 therms per year.⁶² Each new premises residential
15 customer that gets added to the gas system after November 1, 2024 will be decoupled at
16 this new baseline.⁶³ Importantly, new residential customers will **not** be rolled into the
17 existing residential customer class in each subsequent rate case.⁶⁴ These customer
18 classes will perpetually remain bifurcated unless significant changes are observed in
19 usage data.⁶⁵ While NW Natural and Staff are aligned on the need for bifurcating the
20 decoupling mechanism to reflect the lower usage of new premises customers and that

⁵⁹ NW Natural/4800, Wyman-Walker/18-19.

⁶⁰ NW Natural/3900, Wyman/40.

⁶¹ NW Natural/1700, Walker/12.

⁶² NW Natural/1700, Walker/12.

⁶³ NW Natural/1700, Walker/12-13.

⁶⁴ NW Natural/3800, Walker/28.

⁶⁵ NW Natural/3800, Walker/28.

1 bifurcation should not occur at each new rate case,⁶⁶ Staff and NW Natural disagree on
2 the start date when bifurcation should take place.

3 Staff argues that the Company should retroactively define “new” customers for the
4 purposes of the decoupling mechanism as residential customers residing in premises that
5 were connected to the Company’s system on or after January 1, 2018.⁶⁷ Staff believes
6 2018 is an appropriate demarcation date as that date most accurately reflects the
7 differences in usage between existing and new premises customers, and defining new
8 premises customers as customers who joined the system in 2018 and later would have
9 no or minimal impact on the revenue requirement.⁶⁸ In particular, Staff argues that
10 bifurcating customers beginning on January 1, 2018 is more accurate as: (1) customers
11 who joined the system after this date have significantly different consumption compared
12 to existing customers; (2) all houses built on and after 2018 would be subject to the
13 updated residential building codes set in 2017; and (3) average usage of customers that
14 connected to the system between 2018-2022 has remained fairly constant, indicating that
15 the rate of change in UPC may be stabilizing or slowing down after 2018.⁶⁹ Staff also
16 argues that even though it disagrees with NW Natural’s proposed New Premises
17 Customer Charge, if the proposed charge is adopted and applied to all customers
18 connected after 2018, the effect on the volumetric charge would be fairly minimal as
19 premises connected after 2018 make up a relatively small share of the total customer

⁶⁶ NW Natural/3800, Walker/27-28; NW Natural/1700, Walker/10-13; Staff/1900, Stevens/21-22.

⁶⁷ Staff/1900, Stevens/23.

⁶⁸ Staff/4200, Stevens/7.

⁶⁹ Staff/1900, Stevens/23.

1 base.⁷⁰ Accordingly, Staff argues that bifurcating customers beginning in 2018 would not
2 have a significant impact on the Company's revenue requirement.

3 The Commission should reject Staff's recommendation as it would retroactively
4 group customers into the lower usage cohort and would misalign the decoupling
5 mechanism and the Company's revenue requirement outcome.⁷¹ As an initial matter,
6 Staff's argument to retroactively define new premises customers as those residing in
7 premises that connected to the system as far back as 2018 does not consider that those
8 customers are already included in the existing residential class UPC of 660.2 therms
9 calculated for this proceeding and have been for two rate cases prior to the current case.⁷²
10 These customers should not retroactively be moved into a different decoupling group.⁷³
11 If the adjustment is going to be made, it should be on a prospective basis for new
12 customers.⁷⁴

13 In addition, if the Commission were to adopt Staff's recommendation, it would
14 create a misalignment between the decoupling mechanism and the Company's revenue
15 requirement outcome in this proceeding, failing to achieve Staff's stated goal – a more
16 accurate decoupling revenue calculation.⁷⁵ The decoupling mechanism is a key element
17 that will enable the recovery of the revenue requirement approved in this case.⁷⁶ A
18 mismatch between the revenue requirement calculation and the decoupling mechanism
19 would create over or under recovery of revenue through the decoupling mechanism going

⁷⁰ Staff/4200, Stevens/7.

⁷¹ NW Natural/4800, Wyman-Walker/12.

⁷² NW Natural/4800, Wyman-Walker/11; NW Natural/3800, Walker/29.

⁷³ NW Natural/4800, Wyman-Walker/11-12; NW Natural/3800, Walker/29.

⁷⁴ NW Natural/4800, Wyman-Walker/12; NW Natural/3800, Walker/29.

⁷⁵ NW Natural/4800, Wyman-Walker/12.

⁷⁶ NW Natural/4800, Wyman-Walker/13.

1 forward.⁷⁷ If the decoupling baseline is reset for a subset of existing customers, the UPC
2 used in calculating the revenue requirement must also be revised to reflect the average
3 usage of the remaining customers in that cohort.⁷⁸ In doing so, the normalized revenue
4 produced from each cohort at existing rates changes.⁷⁹ This has a direct impact on the
5 overall revenue requirement.⁸⁰ In other words, if the starting point for the revenue
6 requirement calculation is reduced because of a lower assumed UPC for a greater
7 number of customers, the revenue requirement proposed by the Company would need to
8 be higher to account for the deficiency.⁸¹

9 To address this deficiency, the Company calculated the revenue requirement
10 impact of incorporating Staff's proposal for a decoupling mechanism bifurcated based on
11 premises that connected to the system before January 1, 2018, and on or after January 1,
12 2018.⁸² As the Company explained in response to Staff data requests on this issue,
13 including customers going back to 2018 in the new premises cohort necessarily changes
14 the UPC for the existing premises cohort, which the Company calculated to result in a
15 baseline usage UPC of 673.5 therms annually for all residential premises connected prior
16 to January 1, 2018.⁸³ Further, the Company indicated the baseline UPC for premises
17 connected on or after January 1, 2018, should be considered 449.4 therms annually.⁸⁴
18 The Company inputted these UPCs for the two bifurcated baselines, as well as the

⁷⁷ NW Natural/4800, Wyman-Walker/13.

⁷⁸ NW Natural/4800, Wyman-Walker/14.

⁷⁹ NW Natural/4800, Wyman-Walker/14.

⁸⁰ NW Natural/4800, Wyman-Walker/14.

⁸¹ NW Natural/4800, Wyman-Walker/14.

⁸² NW Natural/4800, Wyman-Walker/14.

⁸³ NW Natural/4800, Wyman-Walker/14.

⁸⁴ NW Natural/4800, Wyman-Walker/14-15 (citing Staff/4200, Stevens/9).

1 residential customer count at January 1, 2018 (593,998 RS 2 Residential customers),⁸⁵
2 into the Company's Margin Model. Contrary to Staff's baseless assertions that its
3 proposal would not significantly impact revenue requirement, the results of the
4 Company's analysis show that using the baselines produced by Staff's bifurcation
5 proposal results in a reduction to revenue from the Company's existing customer base
6 which causes an increase to the revenue requirement by \$3.3 million.⁸⁶

7 The "primary reasoning," Staff contends, for recommending this change to the
8 decoupling mechanism which will result in an increased revenue requirement per the
9 Company's analysis "is to calculate the decoupling revenue requirement more
10 accurately."⁸⁷ However, retroactively changing this mechanism, which will only
11 purportedly improve its accuracy by some unspecified amount or metric, is not
12 appropriate. Moreover, in this case, if the Commission were to adopt the 2018
13 demarcation recommended by Staff, the Company would have a \$3.3 million revenue
14 requirement deficiency that would need to be addressed.⁸⁸ For these reasons, the
15 Commission should adopt the Company's proposal to bifurcate customers residing in
16 premises connected to the system on or after November 1, 2024.

17 4. *The Commission should adopt NW Natural's proposal for a New Premises*
18 *Customer Charge.*

19 The Commission should adopt NW Natural's proposal for a New Premises
20 Customer Charge as it addresses a persistent intra-class subsidization issue and will
21 ensure that newly connected lower usage customers will pay their cost of service.

⁸⁵ NW Natural/4800, Wyman-Walker/15; see also Exhibit NW Natural/4801, Wyman-Walker (NW Natural Responses to UG 490 OPUC DR 523, UG 490 OPUC DR 524 and UG 490 OPUC DR 530).

⁸⁶ NW Natural/4800, Wyman-Walker/15; Exhibit NW Natural/4802, Wyman-Walker/1.

⁸⁷ Staff/4200, Stevens/9.

⁸⁸ NW Natural/4800, Wyman-Walker/13.

1 a. The New Premises Customer Charge is necessary to address intra-
2 class subsidization and is consistent with the ratemaking principles
3 of fairness and equity.

4 The Commission should adopt the Company’s proposal for the tandem bifurcation
5 decoupling mechanism and New Premises Customer Charge because it maintains the
6 same volumetric price signal for the residential rate class in order to promote a fair
7 apportionment of revenue requirement across the Residential rate class, while avoiding
8 different volumetric price signals on an intra-class level, therefore complying with the
9 ratemaking principles of fairness and equity. The Company’s proposal constitutes sound
10 ratemaking as it is responsive to the principle of fairness presented as “Attributes of a
11 Sound Rate Structure” developed by James C. Bonbright.⁸⁹ The sixth principle seeks to
12 avoid “arbitrariness and capriciousness” while attaining equity in three dimensions:
13 “(1) Horizontal (i.e., equals treated equally); (2) vertical (i.e., unequals treated unequally);
14 and (3) anonymous (i.e., no ratepayer’s demands can be diverted away uneconomically
15 from an incumbent by a potential entrant).”⁹⁰ The Company’s proposal avoids
16 arbitrariness in the volumetric price signal on an intra-class basis, while maintaining equity
17 between premises of different vintages (existing vs new), while also apportioning rates
18 that recognize differing costs of service across premises types (single-family vs multi-
19 family) (i.e., four residential sub-classes).⁹¹ Overall, the purpose of the Company’s rate
20 design proposal is to mitigate residential intra-class subsidies between these four types
21 of residential customers.⁹² No party has attempted to address this point in testimony or

⁸⁹ NW Natural/3900, Wyman/25 (referencing James C. Bonbright et al., *Principles of Public Utility Rates*, 383-84 (2d ed.1988)).

⁹⁰ NW Natural/3900, Wyman/25 (referencing Bonbright at 383-84).

⁹¹ NW Natural/4800, Wyman-Walker/43; NW Natural/3900, Wyman/25.

⁹² NW Natural/4800, Wyman-Walker/7.

1 offers any citations to utility ratemaking or rate design literature that indicate dwelling
2 vintage is “arbitrary” in rate setting.⁹³ Staff has decided, instead, to “advocate for rate
3 designs that don’t discriminate over arbitrary observables, such as the vintage of the
4 dwelling.”⁹⁴ However, Staff’s position opposing the use of dwelling vintage for the New
5 Premises Customer Charge is plainly contrary to its position on bifurcation of the
6 decoupling baseline—which it offers in this same proceeding—based on the vintage of
7 the dwelling.⁹⁵

8 b. Staff and CUB’s argument that new premises customers will pay
9 more for service is misleading and ignores differences in usage
10 between the existing premises and new premises cohorts.

11 Staff and CUB argue that if the Commission approves the New Premises Customer
12 Charge, new premises customers will pay more than existing premises customers and
13 experience a steep increase in rates.⁹⁶ This argument is incorrect for several reasons.
14 First, Staff incorrectly claims that with regard to the New Premises Customer Charge,
15 “[a]ccording to the Company’s analysis, a new premises customer would expect to pay
16 24.3 percent more than an existing premises customer.”⁹⁷ In Rebuttal Testimony, Staff
17 bases its conclusions on CUB’s analysis, conflates CUB’s analysis with the Company’s,
18 and presents CUB’s conclusions as the Company’s.⁹⁸ Even at hearing, after Company
19 witnesses Robert J. Wyman and Kyle T. Walker had attempted to correct the record in
20 Surrebuttal Testimony, Staff insisted that NW Natural’s critique and correction of CUB’s
21 analysis represented the Company’s analysis, stating that Staff is “citing a number that

⁹³ NW Natural/4800, Wyman-Walker/43.

⁹⁴ Staff/4100, Shierman-Dlouhy/24.

⁹⁵ Staff/4200, Stevens/7-8.

⁹⁶ Staff/4100, Shierman-Dlouhy/19; CUB/400, Garrett/49.

⁹⁷ Staff/4100, Shierman-Dlouhy/21.

⁹⁸ NW Natural/4800, Wyman-Walker/35-36.

1 [NW] Natural provided in the reply testimony.”⁹⁹ Staff further stated, “I understand that
2 Company doesn’t agree with CUB’s analysis that led to that 24.3% number, but they
3 calculated it themselves.”¹⁰⁰ In fact, what the Company had stated in Reply Testimony
4 was that even when calculated correctly, CUB’s analysis assumes the usage of a typical
5 new premises customer compared to an existing premises customer using 31.9 percent
6 less natural gas than is typical for an average customer in that cohort on a weather
7 normalized basis.¹⁰¹ The Company concluded that “the premise of the analysis itself is
8 not sound”¹⁰² and that “CUB’s analysis does not even begin to address the question of
9 what the Company’s cost to serve an Existing Premises and a New Premises is and what
10 billing determinants are required to achieve rate equity between the two cohorts.”¹⁰³ In
11 short, while NW Natural provided corrections to CUB’s calculation, the Company also
12 disagreed with the underlying premise of CUB’s analysis,¹⁰⁴ a fact that Staff failed to
13 acknowledge or properly contextualize when referring to the “Company’s analysis” in
14 Rebuttal Testimony.¹⁰⁵

15 More importantly, Staff’s and CUB’s testimony repeat a common conclusion that
16 is untrue and derived from unsound and misleading analysis: if the Commission approves
17 the New Premises Customer Charge, new premises customers will pay more than
18 existing premises customers.¹⁰⁶ In fact, NW Natural demonstrated that under the

⁹⁹ Transcript of August 1, 2024 Evidentiary Hearing at 42, lines 6-8 (Aug. 1, 2024) [hereinafter, “Transcript”].

¹⁰⁰ Transcript at 51, lines 19-22.

¹⁰¹ NW Natural/3900, Wyman/48.

¹⁰² NW Natural/3900, Wyman/48.

¹⁰³ NW Natural/3900, Wyman/48.

¹⁰⁴ NW Natural/3900, Wyman/47-48.

¹⁰⁵ NW Natural/4800, Wyman-Walker/30-32.

¹⁰⁶ NW Natural/4800, Wyman-Walker/48-49.

1 Company's proposal, a typical new premises customer using 449.4 therms will pay 11.8
2 percent *less* annually on a total billing basis compared to a typical existing premises
3 customer using 660.2 therms.¹⁰⁷ The Company also demonstrated that for lower income
4 customers, at every low income bill discount program tier winter bills would be *lower* for
5 new premises customers relative to existing premises customers based on average
6 annual anticipated weather normalized usage.¹⁰⁸ The Company also concluded, based
7 on its initially filed revenue requirement, that due to the higher New Premises Customer
8 Charge and lower usage associated with the new premises customer cohort, bills would
9 be roughly 19 percent (\$29.72) lower in the winter months but 17 percent higher (\$6.04)
10 in the summer months compared to the existing premises cohort.¹⁰⁹ This indicates that
11 the Company would be recovering nearly the same cost to serve between both cohorts
12 on an annualized basis.¹¹⁰ Without the proposed rate design intervention, cost recovery
13 would not be equal between the cohorts on an annualized basis and the intra-class
14 subsidization problems would persist.¹¹¹

15 Indeed, if the Commission does not adopt the New Premises Customer Charge,
16 given the two baselines, 449.4 therms and 660.2 therms, and assuming the same billing
17 determinants are used for a customer at either baseline, a typical new premises customer
18 would pay *23.0 percent less* than a typical existing premises customer, even though the
19 cost to serve these two cohorts is roughly the same.¹¹² Accordingly, existing premises

¹⁰⁷ NW Natural/4800, Wyman-Walker/36-37; NW Natural/3900, Wyman/55. The 11.2 percent figure was updated to 11.8 percent under the Second Stipulation revenue requirement as shown in Exhibit NW Natural/4805, Wyman-Walker/1. NW Natural/4800, Wyman-Walker/46.

¹⁰⁸ NW Natural/4800, Wyman-Walker/28.

¹⁰⁹ NW Natural/3900, Wyman/55-56.

¹¹⁰ NW Natural/3900, Wyman/56.

¹¹¹ NW Natural/3900, Wyman/56.

¹¹² NW Natural/4800, Wyman-Walker/49.

1 customers would be subsidizing new premises customers—which, on average, are
2 higher-income home purchasers who live in census tracts that have median household
3 incomes 29.0 percent higher than the Oregon median household income¹¹³ and who are
4 less likely to be enrolled in the bill discount program.¹¹⁴ No party argues that this intra-
5 class subsidization does not exist,¹¹⁵ nor does Staff address why it is equitable for new
6 premises customers to underpay their cost of service at the expense of existing premises
7 customers.¹¹⁶ Moreover, unaddressed, this subsidization will only get larger over time as
8 new premises are connected to the system.¹¹⁷

9 Despite this fact, to support their arguments of discrimination for new premises
10 customers, both Staff and CUB rely on CUB’s analysis for determining costs, which
11 inappropriately assumes that new premises customers will have the exact same usage
12 as existing premises customers.¹¹⁸ This is not a reasonable assumption, and contradicts
13 Staff’s recognition that new premises customers tend to consume fewer therms in
14 comparison with existing premises customers—an assumption that also formed the basis
15 of Staff’s position concerning decoupling.¹¹⁹ Additionally, both Staff and CUB suggest
16 that there may be examples of individual customers that have higher or lower usage
17 patterns than the average for the new premises cohort or existing premises cohort,
18 respectively, but even Staff acknowledges that focusing on outliers does not constitute

¹¹³ NW Natural/4800, Wyman-Walker/49-50.

¹¹⁴ NW Natural/4800, Wyman-Walker/35.

¹¹⁵ NW Natural/4800, Wyman-Walker/50.

¹¹⁶ NW Natural/4800, Wyman-Walker/28-29.

¹¹⁷ NW Natural/4800, Wyman-Walker/50.

¹¹⁸ Transcript at 41, line 21-46, line 2.

¹¹⁹ Transcript at 39, line 9–40, line 22.

1 principled ratemaking.¹²⁰ In fact, the Company demonstrated that without the New
2 Premises Customer Charge, all existing premises customers will subsidize all new
3 premises customers.¹²¹ NW Natural urges the Commission to recognize the residential
4 intra-class rate subsidization issue demonstrated by NW Natural in this case—which
5 burdens higher usage existing premises customers—and approve the Company’s
6 proposal to fix this problem. The New Premises Customer Charge promotes an equitable
7 cost-of-service-based rate structure responsive to the observed usage patterns of new
8 premises customers relative to existing premises customers.

9 c. Using typical usage values defined as the average annual weather
10 normalized UPC specific to each cohort’s observed usage behavior
11 to determine the impacts of the New Premises Customer Charge is
12 justified.

13 Staff and CUB argue that a rate is fair if two cohorts of customers pay an equal
14 amount for an equal amount of usage.¹²² The apparent basis for this equal-usage
15 assumption is that usage is not a fixed characteristic of a household and low-income, new
16 premises customers with unusually high usage would be especially economically
17 burdened.¹²³ This method of ratemaking is unprincipled as it ignores the *typical* average
18 usage of low-income customers (the group of concern), the *typical* usage behavior of
19 each cohort which is the appropriate factor in ratemaking analyses, and the actual
20 impacts that a *typical* cohort customer would experience.¹²⁴ In Surrebuttal Testimony,

¹²⁰ Transcript at 48, lines 14-24.

¹²¹ NW Natural/4800, Wyman-Walker/36-37.

¹²² Staff/4100, Shierman-Dlouhy/23-25; CUB/400, Garrett/49-50.

¹²³ Staff/4100, Shierman-Dlouhy/24-25.

¹²⁴ NW Natural/4800, Wyman-Walker/48-49.

1 the Company argued that what Staff and CUB present is an *equal* rate structure, not an
2 *equitable* rate structure.¹²⁵

3 As an initial matter, the Company provided an estimate that showed that customers
4 that are either enrolled in the bill discount program or have received bill assistance in the
5 past 24 months as of March 2024 and that had initial service connection dates from 2013
6 through 2023 had average annual weather normalized usage of about 464.7 therms.¹²⁶
7 This value is slightly higher than the expected new premises UPC of 449.4 therms; is 12.6
8 percent lower than the usage level that would result in a total bill similar to that of an
9 existing premises customer (531.9 therms); and 21.7 percent lower than the usage level
10 that would result in higher winter bills compared to an existing premises customer (588.7
11 therms) *before* any bill assistance or bill discounts have been applied.¹²⁷ Therefore,
12 because the average UPC for low-income customers is more in line with the expected
13 new premises UPC of 449.4 therms, low-income, new premises customers would pay
14 less annually on a total billing basis compared to a typical existing premises customer
15 using 660.2 therms. Additionally, any customer (including a low-income customer)
16 moving from an existing premises into a new premises dwelling would be expected to see
17 an **overall bill decrease**, not increase.¹²⁸ Staff's and CUB's analysis relying on outlier
18 usage levels to argue discrimination and disproportionate impacts on low-income, new

¹²⁵ NW Natural/4800, Wyman-Walker/48-50.

¹²⁶ NW Natural/3900, Wyman/59. Due to the low number of observations in this dataset, Company witness Wyman did not perform a regression analysis similar in methodology to the UPC Forecast. Therefore, this value is not weather normalized, but does represent the average usage across 10 years' of variable (both warmer and colder than normal) weather. NW Natural/3900, Wyman/59 n.85.

¹²⁷ NW Natural/3900, Wyman/59.

¹²⁸ NW Natural/4800, Wyman-Walker/38-39.

1 premises customers is not an accurate representation of reality or the impacts on typical
2 cohort customers.

3 Staff also argues that distinguishing cohorts based on average usage is not
4 appropriate because household usage is not fixed and an existing premises customer
5 could alter their usage to be closer to the usage of a new premises customer.¹²⁹ This
6 argument is without merit and ignores the fact that ratemaking is not performed on an
7 individual customer basis, precisely tailored to that customer's usage.¹³⁰ Rather,
8 ratemaking is performed on a class or sub-class basis based on customers with common
9 characteristics and an expected weather normalized annual use.¹³¹ Staff argued in docket
10 UG 435, and the Company agreed, that there is a fundamental difference between
11 existing premises and new premises usage such that a change—the bifurcation of the
12 decoupling mechanism—is warranted.¹³² This change alters the ratemaking of the
13 residential class and necessitates a rate design modification to avoid intra-class
14 subsidization that more heavily impacts the higher use existing premises cohort.¹³³ It is
15 standard ratemaking practice to calculate billing determinants (the monthly fixed charge
16 and volumetric rates) using the annual weather normalized UPC (i.e., the typical use for
17 an average customer) for each set of customers grouped by common characteristics.¹³⁴
18 Therefore, the ratemaking for the *typical* lower-use new premises customer is based on

¹²⁹ Staff/4100, Shierman-Dlouhy/24-25.

¹³⁰ NW Natural/4800, Wyman-Walker/37.

¹³¹ NW Natural/4800, Wyman-Walker/37.

¹³² NW Natural/3900, Wyman/49; Docket UG 435, Staff/1300, Scala/19, 25.

¹³³ NW Natural/3900, Wyman/49-50.

¹³⁴ NW Natural/3900, Wyman/50.

1 449.4 therms and the *typical* higher-use existing premises customer is based on 660.2
2 therms annually.¹³⁵

3 It would not be sound ratemaking (nor would it be fair or just to customers) to set
4 rates based on the bottom one-third of users just as it would not make sense to set rates
5 based on the top one-third (or one-tenth, for that matter) of users and charge those rates
6 to every customer in the class.¹³⁶ However, that is precisely what drives Staff and CUB's
7 analysis of the Company's New Premises Customer Charge proposal, and the
8 Commission should reject such examination of ratemaking proposals as unprincipled and
9 not reflective of usage behavior that is in common agreement between Staff and the
10 Company in this proceeding.¹³⁷ Therefore, the Commission should reject Staff's and
11 CUB's flawed analysis of the Company's proposal and should instead rely on the
12 Company's analysis, which indicates its proposal will mitigate intra-class subsidization
13 flowing from existing premises customers to new premises customers, a conclusion that
14 no party disputes.¹³⁸

15 To be clear, Staff does support the use of averages in ratemaking. Staff argues
16 that averages were appropriate for setting baselines for its bifurcated decoupling
17 mechanism proposal.¹³⁹ Staff claims, however, that averages are not appropriate for the
18 New Premises Customer Charge proposal because under "the Company's proposal for
19 the New Premises customer, different fixed customer charges will be a discrimination."¹⁴⁰

¹³⁵ NW Natural/3900, Wyman/50.

¹³⁶ NW Natural/3900, Wyman/50.

¹³⁷ NW Natural/4800, Wyman-Walker/41.

¹³⁸ NW Natural/4800, Wyman-Walker/50.

¹³⁹ Staff/1900, Stevens/20-22.

¹⁴⁰ Transcript at 53, lines 20-22.

1 Staff argues that this principle can be applied unevenly when “treating customers
2 differently in a discriminatory manner versus something that applies to all customers.”¹⁴¹
3 Staff, however, recommended in docket UG 435 separate monthly fixed charges for
4 customers in the residential class based on dwelling type (single- or multi-family), which
5 the Company proposed in this proceeding.¹⁴² Staff does not oppose this cost of service
6 based proposal which will result in a higher monthly fixed charge of \$10.00 for a sub-set
7 of residential customers based on a common dwelling characteristic (i.e., customers in
8 single-family dwellings) compared to \$8.00 for customers in multi-family dwellings¹⁴³ even
9 though it argued that “[a]s a general principle we treat the entire [residential] class as the
10 same.”¹⁴⁴ Yet Staff argues that the Company’s cost of service based New Premises
11 Customer Charge proposal, which would create separate monthly fixed charges based
12 on a different common dwelling characteristic (i.e., dwelling vintage as it pertains to the
13 date it is connected to the Company’s system) is “discriminatory” in the same proceeding
14 it is advocating for a rate design modification to the Company’s decoupling mechanism
15 based on dwelling vintage.¹⁴⁵ The Commission should reject Staff’s inconsistent and
16 unevenly applied principles which clearly allow the use of – and analysis based on –
17 averages and common dwelling characteristics and vintages for ratemaking proposals it
18 supports (e.g., the bifurcated decoupling mechanism and the bifurcated single- and multi-
19 family monthly fixed charge rate) but do not allow the same for proposals it does not

¹⁴¹ Transcript at 53, lines 23-25 –54, line 1.

¹⁴² NW Natural/1800, Wyman/67-76.

¹⁴³ NW Natural/4800, Wyman-Walker/9; Second Stipulation at 5 (July 24, 2024); Joint Testimony in Support of the Second Stipulation at 15-16.

¹⁴⁴ Transcript at 48, lines 22-24.

¹⁴⁵ NW Natural/4800, Wyman-Walker/34-35.

1 support (e.g., the New Premises Customer Charge).¹⁴⁶ The Commission should instead
2 require consistent application of these principles across all rate design proposals in this
3 proceeding to support findings that the Company's rate design proposals are fair,
4 equitable, and cost of service based.¹⁴⁷

5 d. Staff's and the Coalition's recommendation to address the UPC
6 disparity in the new premises and existing premises cohorts in the
7 decoupling baseline only is inadequate.

8 Staff and the Coalition argue that addressing the usage differences in the
9 decoupling baseline for new premises and existing customer premises will be adequate,
10 and thus there is no need for the New Premises Customer Charge. In particular, Staff
11 claims without evidence that "issues with variances in volumetric sales are best solved by
12 the Company's decoupling mechanism rather than a blanket charge that applies to all
13 new customers."¹⁴⁸ In a similar vein, the Coalition states: "the Company could modify its
14 expected residential use-per-customer in the decoupling mechanism to account for the
15 impact of the new premise residential customers."¹⁴⁹

16 It is unprincipled and inconsistent with basic principles of ratemaking to address
17 the usage trends only with the decoupling baseline and not also make a rate design
18 modification.¹⁵⁰ As the Company explained in its Reply Testimony, without a rate design
19 intervention for the new premises cohort, the Company's base margin volumetric rate
20 would be higher relative to the Company's proposal.¹⁵¹ In turn, the higher volumetric rate
21 would impact higher users the most, including those users who are least able to respond

¹⁴⁶ NW Natural/4800, Wyman-Walker/33.

¹⁴⁷ NW Natural/4800, Wyman-Walker/49-50.

¹⁴⁸ Staff/1800, Shierman/20.

¹⁴⁹ Coalition/100, Cebulko/52.

¹⁵⁰ NW Natural/4800, Wyman-Walker/14; NW Natural/3800, Walker/27.

¹⁵¹ NW Natural/4800, Wyman-Walker/14-15; NW Natural/3900, Wyman/38.

1 in the short-run to higher price signals with energy efficiency measures such as new
2 appliance purchases and home weatherization.¹⁵² The higher volumetric rate also results
3 in a greater impact to the higher use cohort (existing premises) which, the Company
4 demonstrated tends to have a higher proportion of lower-income customers compared to
5 the new premises cohort.¹⁵³ The Company calculated the impact associated with making
6 no rate design change under its initially filed revenue requirement and determined that it
7 would under-collect about \$612 thousand from new premises cohort customers in the
8 Test Year, which will instead be collected through the volumetric base margin rate from
9 all (existing premises and new premises) customers with higher users paying more—
10 plainly resulting in intra-class subsidization.¹⁵⁴ Rejection of the Company's New
11 Premises Customer Charge proposal, therefore, would result in a higher volumetric rate
12 for every residential customer on a magnitude higher than many of the rate adjustments
13 each party has proffered in this proceeding.¹⁵⁵

14 If the issues of intra-class subsidization were solved by the decoupling mechanism
15 alone, this solution is not reflected in Staff's LEA model modifications that indicate a
16 revenue shortfall for a new customer addition.¹⁵⁶ That is, if the Company is recovering its
17 cost to serve new premises customers at a rate necessary to mitigate intra-class
18 subsidization through its decoupling mechanism, not the New Premises Customer
19 Charge, then the margin revenues commensurate with the new premises connection

¹⁵² NW Natural/3900, Wyman/38.

¹⁵³ NW Natural/3900, Wyman/38-39.

¹⁵⁴ NW Natural/3900, Wyman/39.

¹⁵⁵ NW Natural/4800, Wyman-Walker/50.

¹⁵⁶ NW Natural/3900, Wyman/76-77.

1 would need to be reflected in the LEA model.¹⁵⁷ As the Company has shown, it is not. For
2 these reasons, the Commission should reject the notion that the decoupling mechanism
3 alone is sufficient to address intra-class subsidization.

4 e. The analyses for the New Premises Customer Charge and the LEA
5 are distinct and should not impact one another.

6 Staff makes the inaccurate assumption that the purpose of the New Premises
7 Customer Charge is “to juice” the Company’s LEA model.¹⁵⁸ This is incorrect and should
8 be rejected by the Commission as a rationale for disallowing the New Premises Customer
9 Charge. While the LEA model does include the New Premises Customer Charge as a
10 general input in the Company’s LEA model, along with the proposed residential margin
11 rate per therm and assumed customer UPC,¹⁵⁹ these proposals are independent. At
12 hearing, Staff acknowledged that it is viewing the LEA and New Premises Customer
13 Charge as separate proposals.¹⁶⁰

14 Importantly, the higher New Premises Customer Charge is intended to fix an
15 existing intra-class subsidization issue, and simply ensures that the proposed rate design
16 produces revenues from the new premises customers necessary to fully cover their cost
17 of service.¹⁶¹ The New Premises Customer Charge, therefore, is cost of service based
18 and uses the expected UPC of new premises customers.¹⁶² While the New Premises
19 Customer Charge may be a general input in the Company’s LEA model, it was not
20 developed specifically to support the Company’s LEA model.

¹⁵⁷ NW Natural/3900, Wyman/77.

¹⁵⁸ Staff/4100, Shierman-Dlouhy/27; see also Transcript at 34, lines 2-6.

¹⁵⁹ NW Natural/4800, Wyman-Walker/40.

¹⁶⁰ Transcript at 36, lines 7-10.

¹⁶¹ NW Natural/4800, Wyman-Walker/40.

¹⁶² NW Natural/4800, Wyman-Walker/40.

1 Staff and CUB also argue that the LEA is dependent on the New Premises
2 Customer Charge—i.e., the only way a non-negative or trivially small LEA could be
3 justified in the Company’s modeling is through the inclusion of the higher New Premises
4 Customer Charge.¹⁶³ This is incorrect. Without rate design intervention, the new premises
5 cohort **does not cover its cost to serve** even with the decoupling mechanism
6 bifurcation.¹⁶⁴ Contrary to Staff’s and the Coalition’s assertions that addressing the usage
7 issue in the decoupling mechanism alone is sufficient,¹⁶⁵ margin revenues commensurate
8 with the new premises connection are not reflected in the LEA model.¹⁶⁶ For these
9 reasons, even using a \$10.00 fixed charge, the LEA model produces negative or trivial
10 results.¹⁶⁷ This is due simply to the fact that—with the decoupling mechanism alone—
11 new premises customers are not paying for their cost of service.

12 For the foregoing reasons, the Commission should recognize that rate design
13 intervention is warranted, and adopt the Company’s proposal for a New Premises
14 Customers Charge.

15 **B. Line Extension Allowance**

16 In this case, the Company proposed a new approach to the LEA, responding to
17 the Commission’s direction for the Company to incorporate assumptions regarding GHG
18 emissions reduction policy into the LEA.¹⁶⁸ Specifically, the Company proposes
19 redesigning the LEA to align with the Commission’s instruction to provide:

¹⁶³ Staff/4100, Shierman-Dlouhy/27; CUB/200, Garrett/17.

¹⁶⁴ NW Natural/3900, Wyman/76.

¹⁶⁵ Staff/1800, Shierman/20; Coalition/100, Cebulko/52.

¹⁶⁶ NW Natural/3900, Wyman/77.

¹⁶⁷ NW Natural/4800, Wyman-Walker/41.

¹⁶⁸ NW Natural/1900, Therrien/27-28.

1 (1) the Company’s best reasonable estimate of present and future GHG emissions
2 reduction compliance costs;

3 (2) an analysis of how each new customer addition changes the cost of such
4 compliance for existing customers;

5 (3) an explanation of how the proposed LEA incorporates and recognizes the costs
6 of compliance;

7 (4) an analysis supporting the Company’s assumption about how long new
8 customers will remain on the system; and

9 (5) a demonstration of the year-over-year impact on existing customers under the
10 proposed LEA to show a “breakeven” year.¹⁶⁹

11 In accordance with the Commission’s direction, the Company’s LEA proposal
12 addresses each of these items and results in a first-of-its-kind LEA that provides a higher
13 line extension allowance for customers that use less natural gas, whereas customers that
14 use more natural gas will receive a lesser allowance. As the Company explained in its
15 Direct Testimony, the new LEA proposal aligns with its vision for the future of the gas
16 system where customers consume less throughout the year, but still rely on it for the
17 winter peak performance of gas furnaces and fireplaces, and other customer preference
18 features like gas cooktops and tankless water heaters, which also provide resiliency
19 benefits by remaining functional in a power outage.¹⁷⁰

20 The Company has used a Discounted Cash Flow (“DCF”) methodology to create
21 an LEA model that incorporates costs of compliance with future GHG emissions reduction

¹⁶⁹ *In re Nw. Natural Gas Co., dba NW Natural, Request for a General Rate Revision*, Docket UG 435, Order No. 22-388 at 52 (Oct. 24, 2022); NW Natural/1900, Therrien/27-34.

¹⁷⁰ NW Natural/100, Palfreyman-Kravitz/30.

1 targets as new customers join the system, reflecting Commission instruction to ensure
2 that adding new customers does not inadvertently harm existing customers by raising
3 cost of compliance with GHG emission reduction requirements.¹⁷¹ The proposed LEA
4 incentivizes new customers to join the system with low-usage appliances,¹⁷² and it is
5 structured to ensure that new customers bear the full cost of their compliance each
6 year.¹⁷³ Further, the Company reassessed and shortened the length of the LEA payback
7 period and included a demonstration of the year-over-year costs and benefits of adding
8 new customers.¹⁷⁴

9 Using the results from the DCF model, the Company is proposing a four-tiered,
10 fixed LEA based on anticipated annual usage.¹⁷⁵ The tiered approach allows for
11 efficiency implementing the LEA so that the Company does not need to run a DCF
12 calculation for every new potential customer.¹⁷⁶ Rather, the Company can determine the
13 expected therm usage from the customer based on the appliances installed in the
14 residence, and then quickly identify the LEA based on which tier the customer is in.¹⁷⁷

15 Shortly after the Company finalized its Direct Testimony in this case, in late
16 December 2023, the CPP was invalidated.¹⁷⁸ NW Natural's original LEA proposal was
17 informed by the now-invalidated CPP, and through Supplemental Testimony, NW Natural
18 updated the inputs to the LEA model to instead use a proxy cost assumption for a future

¹⁷¹ NW Natural/1900, Therrien/29.

¹⁷² NW Natural/1900, Therrien/24-26.

¹⁷³ NW Natural/1900, Therrien/29.

¹⁷⁴ NW Natural/1900, Therrien/30-34.

¹⁷⁵ NW Natural/1900, Therrien/24, 26-27.

¹⁷⁶ NW Natural/1900, Therrien/26.

¹⁷⁷ NW Natural/1900, Therrien/26.

¹⁷⁸ *Nw. Nat. Gas Co. v. Env't Quality Comm'n*, 329 Or App 648, 652 (2023).

1 Oregon GHG emissions reduction program.¹⁷⁹ Thereafter, in Reply and Surrebuttal
 2 Testimony, the Company further refined the inputs to the model to reflect revised
 3 assumptions for non-growth capital expenditures and increasing the unit cost of RNG, in
 4 response to suggestions from Staff, and to update the LEA for the stipulated revenue
 5 requirement of \$95.0 million and revised single-family new customer premises charge of
 6 \$24.50.¹⁸⁰ Taking into account the updates that have occurred over the course of this
 7 proceeding, the proposed allowances are shown in the Table 2, below.

Table 2. DCF Model Results¹⁸¹

Use Per Customer (Therms)	0 – 250	251 – 450	451 – 650	Over 650 ¹⁸²
LEA Results	\$2,950	\$2,300	\$1,650	\$500

8 NW Natural, along with its peer local distribution companies (“LDCs”), is in a
 9 transformational moment.¹⁸³ The Company’s new LEA proposal is the right policy choice
 10 for this moment and the foreseeable future, as it accounts for future GHG regulations, is
 11 flexible and adaptable to account for changes to the LEA model inputs, and allows the
 12 Company to chart a course for the acquisition of lower usage customers in the future.
 13 The LEA structure incentivizes customers to carefully consider the efficiency of their gas
 14 appliances.¹⁸⁴ A customer who would otherwise seek a higher throughput but for the lower

¹⁷⁹ NW Natural/2000, Kravitz-Therrien/17-18.

¹⁸⁰ NW Natural/4000, Therrien/6; NW Natural/4900, Therrien/3.

¹⁸¹ NW Natural/4900, Therrien/3.

¹⁸² Value based on 1,000 therms.

¹⁸³ NW Natural/4000, Therrien/27.

¹⁸⁴ NW Natural/1900, Therrien/25-26.

1 amount of LEA, for example, will be able to make an economic decision to avoid installing
2 a higher-use appliance in the residence, and consequently receive a higher LEA to help
3 offset construction costs.¹⁸⁵

4 However, Staff, CUB, and the Coalition oppose the Company's LEA proposal, with
5 Staff proposing primarily to eliminate the LEA and in the alternative, follow a phase out of
6 the LEA over the next three years; CUB arguing the Commission should phase down the
7 LEA until it is eliminated; and the Coalition advocating for eliminating the LEA
8 altogether.¹⁸⁶ Despite the incentives for energy efficient usage, Staff, CUB, and the
9 Coalition fundamentally disagree with the Company that the LEA provides value from
10 public policy and economic modeling perspectives. In particular, Staff, CUB, and the
11 Coalition question whether the Commission should continue to incentivize any growth at
12 all on the gas system.¹⁸⁷ Each of Staff's, CUB's, and the Coalition's arguments relies on
13 an unsupported premise that climate policy will result in increasing costs and upward rate
14 pressure, which in turn will drive customer attrition and "stranded costs" on the Company's
15 system.¹⁸⁸

16 In addition, Staff, CUB, and the Coalition raise concerns about the inputs to the
17 Company's LEA model, and provide critiques regarding the 25-year payback period,
18 potential for stranded assets, non-growth capital expenditures, RNG cost assumptions,
19 use of the new customer premises charge in the model, and whether the model accounts

¹⁸⁵ NW Natural/1900, Therrien/25-26.

¹⁸⁶ Staff/3200, Dlouhy/25; Coalition/100, Cebulko/18; CUB/200, Garrett/12.

¹⁸⁷ Staff/3200, Dlouhy/17-18, 25; Coalition/100, Cebulko/12-13; CUB/200, Garrett/12.

¹⁸⁸ Staff/320, Dlouhy/17, 25; Coalition/400, Cebulko/34; CUB/200, Garrett/25.

1 for periods when a home will be unoccupied. NW Natural responded to each of these
2 critiques in its Reply and Surrebuttal Testimonies, explaining:

- 3 • The 25-year term that the Company proposes in the DCF model is
4 reasonable because of the expected life of appliances, the uncertainty of
5 fuel-switching in the future given historical preference to maintain gas
6 appliances, and the potential high costs to convert a home to all-electric;¹⁸⁹
- 7 • The stranded asset concerns rely on unsupported arguments that
8 customers will leave the system and inaccurate application of depreciable
9 asset life without acknowledging the possibility that customers will remain
10 on the system long enough to exceed the cost of the LEA;¹⁹⁰
- 11 • The Company's non-growth capital expenditure forecast is reasonable for a
12 mature natural gas utility and is modeled to remain at current levels through
13 2026 and then decline for the remaining LEA term, resulting in a minor
14 overall effect on the calculation;¹⁹¹
- 15 • The Company's RNG pricing uses the best information available today and
16 contemplates that there may be future refinements should better
17 information become available;¹⁹²
- 18 • The per therm rate is the same for both existing and new customers under
19 the new premise charge and the charge ensures new premises customers
20 pay their full cost of service; and¹⁹³
- 21 • Periods where a home is unoccupied, to the extent they exist, in the
22 aggregate will result in an insignificant amount of understated revenue, a
23 conclusion that is supported by Staff's own modeling.¹⁹⁴
- 24

25 Despite Staff's and intervenors' positions on the LEA, extending an allowance to
26 new customers continues to be the best approach to facilitate responsible growth of the
27 gas system, providing benefits to both new and existing customers. Further, the
28 Company's proposed LEA balances the State's climate goals by incentivizing low-usage

¹⁸⁹ NW Natural/4000, Therrien/13-14; NW Natural/4900, Therrien/19-20.

¹⁹⁰ NW Natural/4000, Therrien/32; NW Natural/4900, Therrien/14.

¹⁹¹ NW Natural/4000, Therrien/16; NW Natural/4900, Therrien/21-22.

¹⁹² NW Natural/4000, Therrien/15; NW Natural/4900, Therrien/6, 20-21.

¹⁹³ NW Natural/4000, Therrien/32-33.

¹⁹⁴ NW Natural/4000, Therrien/16-17; NW Natural/4900, Therrien/11-12.

1 customers to join the system and benefits existing natural gas customers by ensuring new
2 customers bear their own costs to join the system.¹⁹⁵ Finally, the Company's LEA
3 modeling is supported by the record while Staff's, CUB's, and the Coalition's modeling
4 concerns are unfounded and speculative.

5 *1. Background regarding LEAs*

6 When a prospective customer requests that gas service be provided to a new
7 home, or other location not previously served, NW Natural must build out its facilities to
8 connect that customer to the system. Rather than requiring the new customer to fully
9 fund the costs of the connection up-front, the new customer will be provided an allowance
10 that will be applied to construction costs—referred to as a line extension allowance, or
11 LEA.¹⁹⁶ Generally, the amount of the LEA provided in a utility's tariff is designed to be a
12 short-hand calculation that reflects the amount of investment that a utility can make to
13 add a new customer.¹⁹⁷ This approach appears in the Commission's line extension rules,
14 which provide as follows:

15 Each gas utility shall develop, with the Commission's approval, a uniform
16 policy governing the amount of main extension which shall be made free to
17 connect a new customer. This policy should be related to the investment
18 that can prudently be made for the probable revenue.¹⁹⁸

19 As indicated in this rule, utilities are to set the LEA based on expected revenues from the
20 new customer.

21 Accordingly, the LEA reflects the Company's calculation of expected future
22 revenues of that single new customer compared to the construction cost to connect that

¹⁹⁵ NW Natural/1900, Therrien/9.

¹⁹⁶ NW Natural/1900, Therrien/5.

¹⁹⁷ NW Natural/4100, Zaubi/3.

¹⁹⁸ OAR 860-021-0050(1).

1 customer over a set period to determine if an allowance is justified.¹⁹⁹ If the net present
2 value (“NPV”) of expected revenues equal or exceed expected construction costs,
3 including the carrying cost (financial return), then an allowance is applied to offset the
4 upfront construction costs.²⁰⁰ The expected incremental revenue provided by the addition
5 of new customers will “pay down” the initial investment to connect the customer to the
6 system.²⁰¹

7 The goal of line extension allowances is to ensure equity between existing and
8 new customers.²⁰² A sound line extension policy ensures that existing customers do not
9 subsidize new customers, while allowing a level of investment from the natural gas utility
10 commensurate with the incremental revenues from the new customers.²⁰³ The LEA is
11 then added to rate base and paid for by all customers, recognizing that the new customer
12 is providing incremental revenue, and the new customer is responsible to pay any
13 estimated construction costs in excess of that allowance.²⁰⁴ As such, the LEA still serves
14 an important role in ensuring that new customers can afford to join the gas system,
15 making natural gas accessible and preserving customers’ choice.²⁰⁵ Further, it continues
16 to provide benefits to NW Natural’s existing customers by incentivizing the addition of new
17 customers to the customer base, which spreads out the costs of non-growth capital
18 investments.²⁰⁶

¹⁹⁹ NW Natural/1900, Therrien/5.

²⁰⁰ NW Natural/1900, Therrien/6.

²⁰¹ NW Natural/1900, Therrien/6.

²⁰² NW Natural/1900, Therrien/4-5, 9.

²⁰³ NW Natural/1900, Therrien/5.

²⁰⁴ NW Natural/1900, Therrien/29.

²⁰⁵ NW Natural/2200, Kravitz/22-23; NW Natural/4900, Therrien/17-18; NW Natural/100, Palfreyman-Kravitz/20-21.

²⁰⁶ NW Natural/1900, Therrien/11.

1 This purpose has not changed and even under the new proposal, the LEA provides
2 opportunity for customers to join the gas system while also creating a pathway for the
3 Company to attract low-usage customers. Both new and existing customers benefit from
4 the LEA, and the Company’s approach will provide fuel choice and allow the Company’s
5 customers to enjoy the resiliency benefits of the gas system.

6 2. *The Company’s proposed LEA is the right policy choice.*

7 As an initial matter, NW Natural followed the Commission’s direction from the last
8 rate case, and carefully considered how to best reflect compliance costs associated with
9 GHG emissions regulation.²⁰⁷ The Company’s LEA proposal sets the right course for the
10 future, and appropriately balances benefits among new and existing customers and
11 avoids intra-class subsidization.

12 Staff questions whether offering an LEA is a “least regrets” approach as the future
13 Oregon GHG regulations are not yet finalized and recommends the Commission take
14 cues from nearby states that have eliminated or made plans to phase out LEAs.²⁰⁸ The
15 Coalition argues that the LEA is not consistent with public policy because some level of
16 building electrification will necessarily occur in the next several decades, so the
17 Commission should no longer incentivize expanding the gas system.²⁰⁹ Staff, CUB, and
18 the Coalition additionally argue that customers do not benefit from the LEA. CUB
19 questions whether “incenting growth of the gas system at this time poses unacceptable
20 risk to existing customers[.]”²¹⁰ The Coalition further argues that the Company cannot

²⁰⁷ NW Natural/1900, Therrien/27-29; NW Natural/2000, Kravitz-Therrien/15-27; Order No. 22-388 at 48.

²⁰⁸ Staff/3200, Dlouhy/14, 18-19, 28.

²⁰⁹ Coalition/100, Cebulko/16; Coalition/400, Cebulko/8-11.

²¹⁰ CUB/200, Garrett/12.

1 continue to expand the gas system while meeting decarbonization requirements and
2 providing customers with affordable energy.²¹¹

3 However, the Company's new LEA proposal is structured to provide the same
4 benefits an LEA has traditionally provided while incentivizing energy efficient appliances
5 and lowering throughput on the Company's system.²¹² Because the LEA provides a
6 higher allowance for customers with lower-than-average usage, this novel approach to
7 the LEA will permit the Company to responsibly grow its system while meeting
8 decarbonization goals.²¹³ Further, the new LEA structure maintains the benefits both new
9 and existing customers receive and eliminates any potential intra-class subsidization.²¹⁴
10 Existing customers further benefit from adding new customers to spread out system
11 costs.²¹⁵ On the other hand, eliminating the LEA will create barriers to customer choice
12 of energy, and slow growth, putting more pressure on current customers to financially
13 support the system. On balance, both new and existing customers benefit more from
14 adopting the updated LEA rather than phasing it out or eliminating it completely.

15 a. NW Natural's LEA proposal complies with the Commission's
16 direction in Order No. 22-388.

17 In the Company's last rate case, docket UG 435, the Company's LEA was a fully
18 litigated issue. The Coalition sought to eliminate the LEA, while CUB advocated for a
19 phase down over a number of years.²¹⁶ Staff and AWEC urged the Commission to

²¹¹ Coalition/400, Cebulko/10.

²¹² NW Natural/1900, Therrien/26-34.

²¹³ NW Natural/1900, Therrien/35.

²¹⁴ NW Natural/1900, Therrien/5, 9.

²¹⁵ NW Natural/1900, Therrien/11.

²¹⁶ Order No. 22-388 at 32-40.

1 consider the broader context and to avoid making a policy change applicable to all natural
2 gas utilities in a rate case docket.²¹⁷

3 In issuing its decision on the LEA, the Commission observed that the Company's
4 LEA did not capture the costs of GHG emissions reduction compliance that new
5 customers would add to the system.²¹⁸ The Commission agreed that the LEA works to
6 "ensure that existing customers are not harmed by the addition of new customers to the
7 utility's system while accounting for the benefits that are expected to accrue from new
8 customers."²¹⁹ Accordingly, the Commission specifically sought to review the economic
9 benefit that new customers bring to the system and ordered the Company to include the
10 costs of CPP compliance in all future LEA calculations.²²⁰

11 The Commission ultimately reduced the LEA in this decision, and provided for
12 subsequent reductions through November 1, 2024.²²¹ While the Commission did not
13 direct that a generic proceeding be opened, the Commission observed that "it would be
14 appropriate to allow for potential future proceedings that could further develop the
15 technical details associated with NW Natural's LEA and correct for the deficiencies" the
16 Commission had identified in Order No. 22-388.²²² The Commission further directed that

²¹⁷ Order No. 22-388 at 40-41.

²¹⁸ Order No. 22-388 at 48.

²¹⁹ Order No. 22-388 at 48-49.

²²⁰ Order No. 22-388 at 48-49.

²²¹ Order No. 22-388 at 51 ("Specifically, we require an adjustment annually, on November 1 of each year, until November 1, 2024, such that a five times the annual average margin approach will be implemented beginning November 1, 2022, four times margin beginning November 1, 2023, and three times margin beginning November 1, 2024.").

²²² Order No. 22-388 at 51.

1 the Company could seek to tailor its LEA to address the Commission’s concern in a future
2 filing.²²³ The Commission ordered the Company include in any such proposal:

- 3 • The Company's best reasonable estimate of present and future CPP
4 compliance costs;
- 5 • An explanation of how the proposed LEA incorporates and recognizes
6 the costs of CPP compliance;
- 7 • An analysis of how each new customer addition changes the costs of
8 CPP compliance for other customers;
- 9 • An analysis supporting the company's assumptions about the expected
10 time frame over which new customers will remain on the system, and
11 how changing policy dynamics were factored in; and
- 12 • A demonstration of the expected year-by-year economic impact on
13 existing customers from the addition of new customers under the
14 proposed LEA, such that the "breakeven" year is shown, along with the
15 costs and benefits expected in other years, and a demonstration of when
16 rate-based investments for customer additions covered by the LEA are
17 depreciated and removed.²²⁴

18 NW Natural’s proposal in this case fulfills the Commission’s direction, as detailed
19 below.

20 **First**, in its proposed LEA model, the Company is using its best reasonable
21 estimate of future Oregon GHG regulation compliance costs and explains how the
22 proposed LEA incorporates the cost of future emissions reduction policy compliance.²²⁵
23 Prior to the invalidation of the CPP, NW Natural calculated its CPP costs by first
24 maximizing the purchase of Community Climate Investment (“CCI”) credits, reflecting
25 broad stakeholder consensus during NW Natural’s recent IRP proceeding.²²⁶ However,

²²³ Order No. 22-388 at 51 (“If future proceedings establish that a different approach is warranted, that new approach will be adopted prospectively at that time.”).

²²⁴ Order No. 22-388 at 52.

²²⁵ NW Natural/1900, Therrien/27-28.

²²⁶ NW Natural/1900, Therrien/16-17.

1 once the CPP was invalidated, the Company substituted the CCI credit calculation with a
2 calculation that used as a proxy the costs of compliance under the Washington Climate
3 Commitment Act (“CCA”).²²⁷ The Company reasoned that, rather than remove costs of
4 compliance while Oregon reconsiders future emissions reduction policy, it would model
5 the LEA to plan for any future State GHG reduction targets, and therefore adopted the
6 cost of similar compliance obligations effective in Washington.²²⁸ The Washington CCA
7 requires companies to obtain “allowances” to cover their GHG emissions.²²⁹ As such, the
8 Company calculated CCA allowance costs using the highest quarterly price of 2023,
9 approximately \$63/MT CO₂e.²³⁰ While this amount is less than what a CCI credit would
10 have cost under the invalidated CPP, CCIs were never actually for sale to provide a
11 reliable cost, and the CCA allowance costs were then the most expensive credit or
12 allowance from comparable GHG reduction programs in the United States, resulting in a
13 conservative estimate.²³¹

14 The Company calculated its proposed LEA using credits priced at the cost of these
15 CCA allowances for three years.²³² For its additional compliance needs after those three
16 years, NW Natural modeled acquisition of RNG, conservatively estimating that it could
17 acquire RNG at \$22 per dekatherm for its remaining compliance needs.²³³ This amount
18 was higher than the anticipated cost of RNG in its last IRP, and it did not include
19 potentially lower-cost decarbonization solutions such as energy efficiency and industrial

²²⁷ NW Natural/2000, Kravitz-Therrien/16-17.

²²⁸ NW Natural/2000, Kravitz-Therrien/17-18.

²²⁹ NW Natural/2000, Kravitz-Therrien/17.

²³⁰ NW Natural/2000, Kravitz-Therrien/18.

²³¹ NW Natural/2000, Kravitz-Therrien/18.

²³² NW Natural/2000, Kravitz-Therrien/18.

²³³ NW Natural/2000, Kravitz-Therrien/16.

1 decarbonization.²³⁴ After feedback from Staff, the Company updated its RNG estimate to
2 \$25 per dekatherm by year 18 of the DCF model.²³⁵ By considering GHG compliance
3 costs in light of legally valid state programs by using the United States' most expensive
4 GHG allowance credit (the Washington CCA allowance) as a proxy for future Oregon
5 GHG regulation compliance costs and incorporating a conservative price of RNG, NW
6 Natural has calculated an LEA that balances the interests of new and existing customers
7 by analyzing the expected revenue and costs consistent with sound economic
8 principles.²³⁶

9 **Second**, the analysis supporting the LEA proposal incorporates a new customer's
10 cost of future Oregon GHG regulation compliance. Because the addition of a new
11 customer will increase the Company's compliance requirement in aggregate, the
12 proposed DCF analysis assumes that new customers bear immediately their full
13 compliance costs by application of the LEA and the effect on any required contribution
14 amount, whereas existing customers' compliance is phased in over time.²³⁷ Because the
15 CPP has been invalidated, NW Natural used the established cost of CCA allowances as
16 a proxy for the cost of CCI credits in this portion of the calculation as well.²³⁸ The DCF
17 model includes 100 percent of the cost for the new customers each year and also a
18 growing amount of offsetting revenues as the new customers participate in the recovery
19 of compliance costs.²³⁹ While the DCF for the LEA does not generate incremental

²³⁴ NW Natural/2000, Kravitz-Therrien/16.

²³⁵ NW Natural/4000, Therrien/14-15.

²³⁶ NW Natural/2000, Kravitz-Therrien/22.

²³⁷ NW Natural/1900, Therrien/29; NW Natural/2000, Kravitz-Therrien/25.

²³⁸ NW Natural/2000, Kravitz-Therrien/25.

²³⁹ NW Natural/1900, Therrien/29.

1 revenue for the level of cost over the amounts recovered for expected compliance costs,
2 the amount of LEA determined by the model ensures that the revenues from the new
3 customer are sufficient to offset those costs.²⁴⁰ As a result of the DCF modeling, because
4 the LEA accounts for these costs of compliance, the cost of GHG emissions reduction
5 compliance over time is not changed for existing customers.²⁴¹

6 **Third**, the Company proposes a 25-year analysis period for new customers, which
7 should be considered a conservative term.²⁴² This assumption is based on a combination
8 of historical experience and appliance lives, which provides a conservative baseline
9 minimum for expected future use of the natural gas distribution system.²⁴³ Historically,
10 natural gas service in residential areas remain active for multiple decades, regardless of
11 actual appliance life, because customers often choose to replace their gas appliances
12 with new natural gas appliances.²⁴⁴

13 In prior versions of the Company's DCF model approved by the Commission, the
14 Company included various terms depending on the expected appliances installed at the
15 residence; however, this approach is no longer appropriate due to a change in the
16 expected use of the gas system to include more longer-term, low-use resilience
17 appliances.²⁴⁵ The Company expects hybrid systems and other long-term resilience
18 appliances to be installed for low-use customers, so it is reasonable to expect that low-
19 use customers will remain on the system beyond 30 years.²⁴⁶ Additionally, to qualify for

²⁴⁰ NW Natural/1900, Therrien/29.

²⁴¹ NW Natural/1900, Therrien/29.

²⁴² NW Natural/1900, Therrien/30.

²⁴³ NW Natural/2000, Kravitz-Therrien/26.

²⁴⁴ NW Natural/1900, Therrien/30.

²⁴⁵ NW Natural/1900, Therrien/31.

²⁴⁶ NW Natural/1900, Therrien/31.

1 Tier 1 of the LEA, the Company is requiring that customers install two appliances so that
2 the life expectancy of the customers is more reliable for the analysis.²⁴⁷ For these
3 reasons, a 25-year term, which shortens the prior model's 30-year term, is a reasonable
4 balance for purposes of determining an LEA.²⁴⁸ Further, in the event that a new customer
5 continues service beyond the assumed 25-year term in the LEA analysis, the customer
6 provides continued (and additional) benefits to existing customers that were not
7 contemplated in the determination of the LEA.²⁴⁹

8 **Finally**, the Company modeled the year-by-year economic impact to existing
9 customers resulting from adding new customers, and identified the breakeven year under
10 the proposed LEA.²⁵⁰ For a given annual usage assumption (e.g., 250 therms, 450
11 therms, 650 therms or 1,000 therms), the costs contained in the analysis include: CPP
12 proxy compliance costs, incremental O&M costs, franchise taxes, property taxes, and
13 income taxes.²⁵¹ The benefits include an assumption of annual revenue (monthly fixed
14 charge plus variable distribution revenue), CPP proxy revenue, nominal change in base
15 rate revenue per customer, and the contribution to new non-growth capital
16 expenditures.²⁵² The model sets the LEA equal to the value of construction costs in which
17 the NPV of cash flows (initial outlay of the LEA amount and future annual revenues over
18 the subsequent 25 years) equals zero.²⁵³ Regarding the costs and benefits to existing

²⁴⁷ NW Natural/1900, Therrien/31.

²⁴⁸ NW Natural/1900, Therrien/31.

²⁴⁹ NW Natural/1900, Therrien/32.

²⁵⁰ NW Natural/1900, Therrien/33.

²⁵¹ NW Natural/1900, Therrien/33; NW Natural/2000, Kravitz-Therrien/26; NW Natural/2004, Kravitz-Therrien/2.

²⁵² NW Natural/1900, Therrien/33; NW Natural/2000, Kravitz-Therrien/26; NW Natural/2004, Kravitz-Therrien/2.

²⁵³ NW Natural/1900, Therrien/33; NW Natural/2000, Kravitz-Therrien/26; NW Natural/2004, Kravitz-Therrien/2.

1 customers, the proposed LEA model factors in the full burden of the new customer's future
2 Oregon GHG regulation compliance costs, recognizing that the addition of new customers
3 increases the Company's compliance costs.²⁵⁴ Further, the proposed LEA analysis also
4 incorporates the new customer's annual contribution to new non-growth capital
5 expenditures and the nominal change in base rate revenue, which reflect the net benefits
6 to existing customers.²⁵⁵ The Company demonstrated that the breakeven year for
7 customers is likely to be around year 10 or year 11.²⁵⁶ Notably, this shows the LEA
8 provides benefits to existing customers long before the term of the LEA is over.

9 The Company's proposed LEA accomplishes these goals as it includes the most
10 reasonable assumption of current and future costs of any climate policy compliance the
11 Company is likely to face and analyzes the overall benefits that new customers bring to
12 the system despite additional compliance costs. The LEA also achieves intergenerational
13 equity among NW Natural's customers and avoids any subsidies flowing to new
14 customers from existing customers and vice versa.

15 b. NW Natural's LEA proposal is consistent with NW Natural's and the
16 State of Oregon's GHG emissions reductions goals.

17 As an overarching policy matter, Staff questions the prudence of adding customers
18 to the gas system in the current regulatory environment,²⁵⁷ while CUB and the Coalition
19 question whether the Company can meet any emissions reduction compliance goals if it
20 continues to grow.²⁵⁸ In support of its argument to completely eliminate the LEA, the

²⁵⁴ NW Natural/1900, Therrien/33; NW Natural/2000, Kravitz-Therrien/26; NW Natural/2004, Kravitz-Therrien/2.

²⁵⁵ NW Natural/1900, Therrien/33; NW Natural/2000, Kravitz-Therrien/26; NW Natural/2004, Kravitz-Therrien/2.

²⁵⁶ NW Natural/2004, Kravitz-Therrien/2.

²⁵⁷ Staff/900, Dlouhy/28-29, 33.

²⁵⁸ Coalition/100, Cebulko/12-13; CUB/200, Garrett/16-17.

1 Coalition maintains that “LEAs are counterproductive for meeting Oregon’s
2 decarbonization goals.”²⁵⁹ Contrary to these assertions, the Company has provided
3 evidence that it is continuing to experience growth, and expects to continue to do so in
4 the future in a way that aligns with the Company’s vision for a decarbonized system, using
5 decarbonization pathways including cost-effective energy efficiency, decarbonized fuels,
6 and solutions that leverage the strengths of both the natural gas and the electric systems,
7 such as hybrid heating and ground source heat pumps.²⁶⁰ Staff and the Coalition also
8 argue that other states have eliminated or reduced their LEAs, so this Commission should
9 follow suit,²⁶¹ despite the fact that Oregon’s GHG emissions reduction legal and policy
10 context is unique to Oregon, and must be treated by the Commission as such. Finally,
11 there is no support in Oregon law or policy for the extreme measures that Staff, CUB, and
12 the Coalition support such as completely eliminating the LEA.

13 i. NW Natural can responsibly grow and meet future emissions
14 reductions targets.

15 In this case, parties’ advocacy regarding concerns with expansion of the gas
16 system and the potential for stranded assets is speculative and unsupported, and ignores
17 the Company’s testimony describing its plans for responsible growth. Though parties
18 raise concerns regarding customer attrition, they provide no study or analysis that
19 demonstrates real customer flight among NW Natural’s customers, and to the contrary,
20 the Company provided evidence on the record that it is continuing to experience
21 growth.²⁶²

²⁵⁹ Coalition/100, Cebulko/7.

²⁶⁰ NW Natural/2200, Kravitz, 11-12.

²⁶¹ Staff/900, Dlouhy/28-29; Coalition/100, Cebulko/20-21.

²⁶² NW Natural/4000, Therrien/9, 22-23.

1 Staff's advocacy in this case is markedly different than in the prior case as it relates
2 to concerns about growth on the system and the potential for attrition and stranded
3 assets—without any clear explanation for the change in Staff's position. When pushed
4 to further explain the source of Staff's concerns in this case regarding the potential for
5 stranded assets, Staff explained that events that have occurred over the last year that
6 inform Staff's position include: (i) the Commission declined to acknowledge a portion of
7 the Company's most recent IRP in Order No. 23-281 on August 2, 2023, (ii) the CPP was
8 declared invalid on December 20, 2023, and (iii) a new rulemaking to replace the CPP
9 was initiated with a target effective date of January 2025.²⁶³ NW Natural questions Staff's
10 reliance on the CPP being invalidated and a new rulemaking being initiated, as it would
11 not seem to suggest that the possibility of stranded assets are any more or less likely
12 than they were at the time of Staff's prior recommendations.²⁶⁴ NW Natural also
13 questions Staff's reliance on the Commission declining to acknowledge a portion of the
14 Company's most recent IRP given that all investor-owned electric and gas utilities have
15 faced the same challenges in presenting their decarbonization plans to the Commission
16 in their IRP proceedings.²⁶⁵

17 CUB's support for its assumptions concerning its "attrition adjustment" is similarly
18 bare. NW Natural sought to understand the basis for CUB's assumption that the
19 Company will experience a 1 percent annual attrition rate, and in its response to NW
20 Natural's Data Request No. 7, CUB explained that it did not make such an assertion, and
21 instead used the rate of 1 percent to illustrate attrition based on "fundamental

²⁶³ NW Natural/4902, Therrien/1 (OPUC Response to NW Natural Data Request No. 37); NW Natural/4900, Therrien/8-9.

²⁶⁴ NW Natural/4900, Therrien/8-9.

²⁶⁵ NW Natural/4900, Therrien/8-9; NW Natural/2200, Kravitz/14-18.

1 economics.”²⁶⁶ Thus, CUB did not provide support for its attrition assumption, and there
2 is no evidence in the record to support such an assumption apart from CUB’s vague
3 claims about potential customer flight in response to increasing costs—which again does
4 not bear out based on NW Natural’s historical experience.

5 The Coalition argues that the LEA is directionally inconsistent with the State’s
6 future GHG emissions reduction policy, questioning whether the Company has a plan for
7 achieving emissions reductions while growing its system.²⁶⁷ However, as the Company
8 has explained, the LEA is aligned with future emissions reductions policy as it will target
9 growth among low-use customers, and supports the Company’s vision for the future of
10 the gas system where customers consume less throughout the year, but still rely on it for
11 the winter peak performance of gas furnaces and fireplaces, and other customer
12 preference features like gas cooktops and tankless water heaters, and allow customers
13 to enjoy the resiliency benefits of the gas system during power outages.²⁶⁸ The lower
14 usage also results in lower emissions, which aligns with NW Natural’s and the State’s
15 climate goals.²⁶⁹

16 Critically, NW Natural has not experienced the level of customer attrition that
17 parties are predicting and find that no party has presented evidence that a large shift
18 away from natural gas is imminent. Instead, the Company continues to see a growing
19 demand for gas appliances, particularly for cooking and heating, in new build homes.²⁷⁰
20 In fact, the Company’s customer count in Oregon has increased for decades and

²⁶⁶ NW Natural/4903, Therrien/1 (CUB’s Response to NW Natural Data Request No. 7).

²⁶⁷ Coalition/100, Cebulko/9.

²⁶⁸ NW Natural/100, Palfreyman-Kravitz/30.

²⁶⁹ NW Natural/100, Palfreyman-Kravitz/30.

²⁷⁰ NW Natural/4000, Therrien/24.

1 continues to grow.²⁷¹ Even considering only recent years, NW Natural’s customer count
2 has risen, resulting in net customer additions rather than attrition. For example, the
3 Company gained approximately 60,000 customers in Oregon between 2017 and 2023.²⁷²
4 Developers continue to seek to include gas lines in new homes,²⁷³ strengthening the
5 conclusion that there is a demand for natural gas appliances.

6 ii. The laws, policies, and precedent from other states
7 concerning LEAs are inapposite.

8 Although Staff and the Coalition urge the Commission to consider orders
9 eliminating LEAs that were made by other state utility commissions, neither party details
10 the underlying legal and policy considerations informing the judgment of those
11 commissions.²⁷⁴ Staff points to proximity, demographics, and similarity of the states’
12 decarbonization mandates to Oregon’s own policy to conclude that this Commission
13 should take cues from these decisions.²⁷⁵ Staff further argues that both California’s and
14 Washington’s LEA updates are driven by laws or mandates to decarbonize their
15 economy, like Oregon’s Executive Order 20-04.²⁷⁶

16 However, the decisions made in other jurisdictions are not binding on this
17 Commission, and are of limited relevance as persuasive materials in light of the differing
18 legal frameworks underpinning those decisions. For example, although both Staff and
19 the Coalition point to the California Public Utilities Commission’s (“CPUC”) recent
20 elimination of natural gas LEAs, neither include explanation that the California legislature

²⁷¹ NW Natural/4000, Therrien/13.

²⁷² NW Natural/4000, Therrien/23.

²⁷³ Staff/2200, Nottingham/3-4.

²⁷⁴ Staff/900, Dlouhy/28-29; Coalition/100, Cebulko/20-21.

²⁷⁵ Staff/900, Dlouhy/28-29; Staff/3200, Dlouhy/18-19.

²⁷⁶ Staff/3200, Dlouhy/18.

1 specifically instructed the CPUC to pursue policies to facilitate building electrification.²⁷⁷
2 Specifically, the California legislature tasked the CPUC with developing programs “to
3 significantly reduce the emissions of greenhouse gases from [residential] buildings”²⁷⁸
4 and “to require gas corporations to advance the state’s market for low-emission space
5 and water heating equipment for new and existing residential buildings[.]”²⁷⁹ This
6 Commission has received no such comparable legislative directive.

7 Staff also highlights the decisions of the Washington Utilities and Transportation
8 Commission (“WUTC”), claiming that after Washington passed its CCA in 2021 and
9 enacted a program to reduce the state’s GHG emissions by 95 percent by 2050, the state
10 updated its LEA policy.²⁸⁰ Staff maintains that the WUTC considered whether natural gas
11 LEAs should be calculated with an assumption that a customer will be connected to the
12 system in perpetuity as it had until that point, and reduced the LEA calculation period to
13 a seven-year period to align with the state decarbonization goals.²⁸¹ However, the
14 WUTC’s analysis relied on Washington statutes to inform its policy decisions, and did not
15 eliminate the line extension allowance, but rather reduced it to approximately \$2,000,
16 noting it was a gradual decrease from current values.²⁸² Further, the State of Oregon
17 does not follow these states in lockstep and the Oregon Legislature has not enacted any

²⁷⁷ Staff/903, Dlouhy/5-6 (*In re Order Instituting Rulemaking Regarding Building Decarbonization*, Rulemaking 19-01-011, Decision 22-09-026 at 2-3 (Sept. 20, 2022) (indicating the CPUC initiated its rulemaking in response to California Senate Bill 1477 which “promotes California’s building-related [GHG] emission reduction goals” and funds “two building electrification pilot programs”).

²⁷⁸ Cal. Pub. Util. Code § 921.1(a)(1).

²⁷⁹ Cal. Pub. Util. Code § 922(a)(1).

²⁸⁰ Staff/900, Dlouhy/28-29.

²⁸¹ Staff/900, Dlouhy/29.

²⁸² Staff/903, Dlouhy/96-97.

1 law that would limit the growth of the natural gas system or otherwise form the policy basis
2 for phasing out or eliminating the LEA.

3 Additionally, the other examples of state commissions considering LEA policy
4 decisions supplied by the Coalition do not support elimination of the LEA.²⁸³ For example,
5 in Massachusetts, the Massachusetts Department of Public Utilities recently indicated an
6 intent to study natural gas usage in the context of state climate objectives rather than
7 quickly act to eliminate all natural gas LEAs.²⁸⁴

8 iii. Oregon’s policy context does not support such an extreme
9 measure as elimination of the LEA.

10 Here, the Commission must make its own decision, considering its own legal and
11 policy context, and considering the record in this case. The Oregon Legislature has not
12 enacted any Oregon laws that would limit growth of the natural gas system or otherwise
13 form the policy basis for elimination of the LEA. While there will likely be new GHG
14 emissions reduction rules effective at the beginning of 2025, those rules are not yet
15 finalized and would not provide a policy rationale for eliminating the LEA—particularly
16 without first giving the Company a chance to analyze those rules and share its compliance
17 plans with the Commission. The existing state of play in Oregon—with the CPP
18 invalidated and new rules on the way—suggests that any action now to pre-judge the
19 future of the gas system would be made too soon.

20 Considering the record in this case, the evidence demonstrates that Staff’s, CUB’s,
21 and the Coalition’s views concerning the future of the gas system are speculative and

²⁸³ Coalition/100, Cebulko/20-21.

²⁸⁴ Investigation by the Department of Public Utilities on its own Motion into the role of gas local distribution companies as the Commonwealth achieves its target 2050 climate goals, Mass. D.P.U. Order No. 20-80-B at 97-102, 137 (Dec. 6, 2023).

1 unsupported, whereas NW Natural has developed a thoughtful LEA proposal that will
2 provide a pathway for responsible customer growth, to the benefit of new and existing
3 customers.

4 c. The LEA benefits all customers by lowering system costs and
5 avoiding intra-class subsidization.

6 The parties further question whether the LEA actually benefits existing customers
7 by adding new customers to the system. Staff states that while the Company seeks to
8 use the LEA to avoid having existing customers subsidize new customers, any
9 subsidization concerns are eliminated if the LEA is discontinued.²⁸⁵ CUB argues that the
10 model overstates benefits to existing customers²⁸⁶ while the Coalition argues that the LEA
11 increases costs and risks to customers over the long run.²⁸⁷ In particular, the Coalition
12 argues that existing customers bear higher costs due to the initial LEA offered to new
13 customers and benefits are only realized once the new customer has fully repaid their
14 costs to the system.²⁸⁸ The Coalition concludes that this means the LEA is no longer in
15 the public interest.²⁸⁹

16 Existing customers benefit from the addition of new customers to spread the cost
17 of the Company's non-growth capital expenditures.²⁹⁰ Further, the mathematical
18 calculation of the DCF methodology reasonably ensures that new customers pay at least
19 their fair share and do not result in increased costs to existing customers.²⁹¹ On reviewing
20 the Company's calculation, there is no basis for any allegation that the Company

²⁸⁵ Staff/900, Dlouhy/33.

²⁸⁶ CUB/200, Garrett/16-17.

²⁸⁷ Coalition/100, Cebulko/7-8.

²⁸⁸ Coalition/100, Cebulko/11-12.

²⁸⁹ Coalition/100, Cebulko/17-19.

²⁹⁰ NW Natural/1900, Therrien/11.

²⁹¹ NW Natural/1900, Therrien/33.

1 overstated benefits of new customers.²⁹² Rather, the LEA ensures that new premises
2 customers are fully covering their own cost to comply with any climate policy program and
3 the higher new premises fixed charge included in the model produces revenues from
4 these customers to fully cover their cost of service, providing benefits to existing
5 customers.²⁹³ Under the Company's proposed methodology, less reliance is made on
6 volumetric distribution revenues to cover the cost of a line extension,²⁹⁴ and instead, the
7 new premises customer charge ensures that existing customers are not unfairly
8 subsidizing the Company's new customers.²⁹⁵ Eliminating the LEA would result in new
9 customers subsidizing existing customers because new customers will pay 100 percent
10 of their connection costs and existing customers benefit from the revenue these new
11 customers generate that cover common costs of existing customers.²⁹⁶ It is through the
12 LEA that the benefits accruing to both new and existing customers are balanced, and
13 parties fail to acknowledge the subsidization that will occur if the LEA is eliminated.²⁹⁷

14 3. *The Company's LEA modeling assumptions are reasonable and supported*
15 *by the record.*

16 Staff, CUB, and the Coalition take issue with various inputs to the Company's LEA
17 model. Staff, CUB, and the Coalition each argues for shorter payback periods than the
18 25-year period proposed by the Company, arguing that customers are likely to leave the
19 system within that period.²⁹⁸ The parties also take issue with the Company's modeling of
20 proxy CPP compliance costs and RNG pricing in calculating the LEA. CUB argues that

²⁹² NW Natural/4000, Therrien/29.

²⁹³ NW Natural/4000, Therrien/5-6.

²⁹⁴ NW Natural/4900, Therrien/20.

²⁹⁵ NW Natural/4000, Therrien/32-33.

²⁹⁶ NW Natural/4000, Therrien/19-20.

²⁹⁷ NW Natural/4000, Therrien/19-20.

²⁹⁸ Staff/3200, Dlouhy/21; CUB/400, Garrett/35; Coalition/400, Cebulko/7, 12-13.

1 the Company underestimates proxy CPP compliance costs in the model,²⁹⁹ while Staff
2 maintains that the Company should increase its cost of RNG to \$30/MMBtu as a suitable
3 midpoint estimate of future RNG costs.³⁰⁰ Staff additionally asserted that the Company's
4 assumed non-growth capital expenditures forecast is "exceptionally high."³⁰¹ Finally, Staff
5 raises concern that the LEA calculation does not appropriately account for periods during
6 which a home may be unoccupied, skewing the length of time that it will take to reach full
7 compensation of the LEA. However, parties have presented no persuasive evidence
8 customers will leave the gas system at any significant level during the 25-year payback
9 period modeled in the LEA.³⁰² Further, the Company presented reasonable support for
10 the costs of GHG emissions reduction compliance in its modeling and explained how the
11 modeling will change when future RNG costs are known.³⁰³ Additionally, in response to
12 Staff's critique about non-growth capital expenditures, the Company adjusted its non-
13 growth capital expenditure forecast for lower meter and permit costs, resulting in a minor
14 impact on the DCF calculation but still supporting the Company's LEA proposal.³⁰⁴ Finally,
15 the Company presented analysis on how the LEA calculation will not change based on
16 short periods of time when a home is unoccupied.³⁰⁵

17 a. The LEA's 25-year term is reasonable.

18 The Company's 25-year model is a reasonable reduction from the previous 30-
19 year term that the Company has historically used in its LEA calculation.³⁰⁶ The Company

²⁹⁹ CUB/200, Garrett/17.

³⁰⁰ Staff/900, Dlouhy/38.

³⁰¹ Staff/900, Dlouhy/40-42.

³⁰² NW Natural/4000, Therrien/9, 31-32.

³⁰³ NW Natural/2000, Kravitz-Therrien/17-27; NW Natural/4900, Therrien/6.

³⁰⁴ NW Natural/4000, Therrien/16.

³⁰⁵ NW Natural/4000, Therrien/16-17.

³⁰⁶ NW Natural/4000, Therrien/13-14.

1 selected a 25-year term to make an effort to incorporate Staff's recommendation in the
2 Company's last rate case, docket UG 435.³⁰⁷ The 25-year period brings the payback
3 period in closer alignment with a 2022 United States Energy Information Agency report
4 on residential and commercial building technologies, which states that the typical life-
5 cycle of a gas furnace is 22.5 years, providing a clear data point for the shortest likely
6 term that a customer will continue to use their gas connection.³⁰⁸

7 Staff, CUB, and the Coalition take issue with the Company's 25-year payback
8 period included in its LEA modeling for not being conservative enough. Staff, CUB, and
9 the Coalition opine that changes in climate policy and customer preferences create the
10 potential that customers may not stay on the gas system for the full 25-year payback
11 period. Each of the parties speculate that customer attitudes toward natural gas will
12 change in the near future, prompting an exodus from the gas system.³⁰⁹ The Coalition
13 chides the Company for what it calls a "business as usual approach" to customer growth
14 in calculating the LEA instead of accounting for the potential of customer flight.³¹⁰ The
15 parties indicate that the customers choosing to electrify will leave behind significant
16 stranded assets, the cost of which will be borne by those customers who remain on the
17 system.³¹¹ Staff maintains that due to uncertainty of customer behavior, the Company
18 should use a conservative payback period of 15-years or shorter.³¹² The Coalition
19 recommends an even shorter payback period of at most 10 years.³¹³

³⁰⁷ NW Natural/1900, Therrien/21-22; NW Natural/4000, Therrien/13.

³⁰⁸ NW Natural/4000, Therrien/13.

³⁰⁹ See, e.g., CUB/400, Garrett/21.

³¹⁰ Coalition/400, Cebulko/8-9, 11-13.

³¹¹ Staff/900, Dlouhy/36; CUB/200, Garrett/25; Coalition/100, Cebulko/12-13.

³¹² Staff/3200, Dlouhy/21.

³¹³ Coalition/100, Cebulko/36.

1 Each of the parties' allegations as to customer flight from the gas system are
2 unsupported and speculative and do not provide sufficient reason to reject the Company's
3 proposed 25-year term. While parties indicate that customers *could* start to shift their
4 usage toward electric energy, no party presents any data to rebut the Company's position
5 that it has experienced steady growth, especially of residential customers, as
6 homeowners and developers continue to express a preference for natural gas. For
7 example, while Staff speculates that customers could decide to electrify before their gas
8 appliances reach the end of their useful life,³¹⁴ it must be noted that Staff is making a
9 significant and unsupported assumption on behalf of customers. It is far more reasonable
10 to conclude that customers will choose to maximize their investment, staying connected
11 to the gas system for as long as their gas appliances serve them.³¹⁵ CUB testifies that
12 while customers could leave the gas system, they may not do so "easily depending on
13 the gas appliances the customer has already invested in."³¹⁶ Staff provides no support
14 for its assumption that customers *might* undertake to buy expensive new electric
15 appliances and leave the gas system only a few years after receiving an LEA,³¹⁷
16 underscoring the speculative nature of this position. Here, the parties ask the Commission
17 to make a significant policy decision without any evidence of customer flight. In light of
18 the current demand for natural gas, the Company's 25-year payback period is reasonable.

³¹⁴ Staff/3200, Dlouhy/21.

³¹⁵ NW Natural/4900, Therrien/19.

³¹⁶ CUB/200, Garrett/24-25.

³¹⁷ Staff/900, Dlouhy/36.

1 b. There is no evidence that customers will electrify to avoid costs
2 associated with natural gas service resulting from the Company's
3 proposed New Premises Customer Charge.

4 Staff, CUB, and the Coalition argue that customers will seek to electrify due to the
5 cost of natural gas service or the higher new premises charge included in the LEA, making
6 it likely that they will leave the system before the 25-year payback period is complete.³¹⁸
7 In particular, CUB argues that customers with fewer gas appliances and a lower reliance
8 on natural gas are more likely to make the switch to electric appliances.³¹⁹ CUB indicates
9 that the LEA is set up to incentivize customers to connect to the gas system with fewer
10 appliances and to use little to no gas, making it easy for those customers to abandon the
11 gas system.³²⁰ CUB also points to the high new premises fixed charge as one of the main
12 factors that will push customers to electrify, arguing that customers who do so will easily
13 save \$7,875 in bills over the repayment period.³²¹

14 CUB's analysis is too simplistic and does not capture the true cost of electrification
15 or the full savings a natural gas customer would actually achieve.³²² In fact, CUB does
16 not compare the cost of natural gas with the electricity bills that the customer would be
17 paying instead; it simply concludes that electricity is more cost effective.³²³ Instead of
18 recognizing the benefits associated with incentivizing lower usage on the Company's
19 system, CUB summarily states that the Company's LEA suggests that natural gas service
20 will not be competitive with electric service.³²⁴ This is contrary to NW Natural's current

³¹⁸ Staff/3200, Dlouhy/16; Coalition/100, Cebulko/35; CUB/200, Garrett/18.

³¹⁹ CUB/400, Garrett/29.

³²⁰ CUB/400, Garrett/25.

³²¹ CUB/200, Garrett/11; CUB/400, Garrett/29.

³²² NW Natural/4000, Therrien/30-31.

³²³ NW Natural/4000, Therrien/25; NW Natural/4001, Therrien/1 (CUB Response to NW Natural Data Request No. 2).

³²⁴ CUB/200, Garrett/11, 19.

1 experience regarding growth on the Company's system.³²⁵ Rather, as discussed above,
2 the Company continues to see customers choose natural gas service and expects those
3 who choose natural gas to maximize their investment on the system.³²⁶

4 To the argument that customers may depart the system early, the Company
5 acknowledges that it is possible that a new customer connection may be underutilized or
6 abandoned before its full costs are recovered, but also maintains that it is equally possible
7 that customers will remain on the system longer than 25 years, such that the benefits
8 from the new customers accruing to the system would exceed the cost of the LEA.³²⁷ The
9 new customers may actually over-contribute to its required LEA if: 1) their expected
10 revenues exceed those needed to meet a zero NPV requirement, or 2) if the new
11 customers (premises) remain active beyond 25 years.³²⁸

12 c. Costs of GHG emissions reduction compliance and RNG included in
13 the LEA calculation are reasonable.

14 Staff, CUB, and the Coalition argue that the Company's model does not properly
15 model costs of GHG emissions reduction compliance by calculating the appropriate cost
16 of the RNG the Company will need to meet its targets. The Company initially proposed
17 modeling the RNG at \$6.96/MMBtu in year 1, \$7.17/MMBtu in year 2, and \$22.00/MMBtu
18 for years 3 – 25 of the LEA.³²⁹ Staff argues that the Company should instead use
19 \$30/MMBtu as its estimate of future cost of RNG, but the Company believes that is too
20 high.³³⁰ As a result, the Company updated its model to include a conservative RNG cost

³²⁵ NW Natural/4000, Therrien/22-25, 31.

³²⁶ NW Natural/4000, Therrien/23.

³²⁷ NW Natural/4000, Therrien/32.

³²⁸ NW Natural/4000, Therrien/32.

³²⁹ NW Natural1900, Therrien/28.

³³⁰ Staff/900, Dlouhy/38.

1 assumption and raise the cost from \$22.00/MMBtu to \$25.00/MMBtu over the term of the
2 analysis.³³¹

3 Similarly, CUB and the Coalition maintain that the Company's model is flawed
4 because it assumes a static price for RNG for the life of the LEA, underestimating
5 decarbonization compliance costs.³³² The Coalition argues that even if the Company can
6 rely only on RNG to meet its obligations, the price is likely to increase as demand
7 increases.³³³ The Coalition further criticizes the model for failing to include more
8 expensive renewable energy such as hydrogen or synthetic methane.³³⁴

9 The Company recognizes that inputs and assumptions informing the LEA may
10 change over time.³³⁵ However, the model uses the best information that is available today,
11 contemplating that there may be refinements in the future if and when RNG prices
12 change.³³⁶ Neither Staff nor any party can say with certainty what the RNG pricing will
13 be in the future, because forecasting requires using current information to predict an
14 unknown value.³³⁷ Staff, CUB, and the Coalition start with their conclusion, that
15 decarbonization compliance costs must rise over the next several years, to argue there
16 is evidence those costs will rise, but this is not an appropriate approach to forecasting.³³⁸
17 Rather, the Company's modeling relies on known values and is flexible enough to be
18 refined if pricing changes.³³⁹

³³¹ NW Natural/4000, Therrien/14-15; NW Natural/4006, Therrien.

³³² CUB/200, Garrett/16-17; CUB/400, Garrett/30; Coalition/100, Cebulko/31.

³³³ Coalition/100, Cebulko/31.

³³⁴ Coalition/400, Cebulko/15.

³³⁵ NW Natural/4000, Therrien/7.

³³⁶ NW Natural/4000, Therrien/7, 9.

³³⁷ NW Natural/4000, Therrien/10.

³³⁸ Staff/3200, Dlouhy/17; CUB/200, Garrett/17; Coalition/100, Cebulko/31.

³³⁹ NW Natural/4000, Therrien/7-10.

1 Finally, the Coalition criticizes the Company's use of cost of RNG at all for
2 estimating the cost of compliance in the LEA model, arguing that the more appropriate
3 input is the marginal cost of compliance in each year.³⁴⁰ However, the proposed LEA
4 model relies on utilizing allowances in the form of credits as created by any future
5 compliance program for the first three years.³⁴¹ After three years, the Company
6 conservatively estimates that it will need to acquire RNG to meet its compliance goals.³⁴²

7 RNG is the leading resource for the Company's compliance, and as such,
8 represents the best information available today to model compliance with any future GHG
9 emissions reductions program.³⁴³ As such, it is the most realistic input to mirror cost of
10 compliance in the LEA model.³⁴⁴ Moreover, as explained above, the Company's proposed
11 model is flexible to allow updates when an emissions reduction program is adopted, and
12 cost of compliance becomes clear.³⁴⁵

13 d. The non-growth capital expenditures input demonstrates how new
14 customers will contribute to these costs to the benefit of existing
15 customers.

16 Staff raised concern that the Company's model assumes an "exceptionally high
17 amount of new non-growth capital expenditures that will be paid for by new customers."³⁴⁶
18 Staff argued that the non-growth capital expenditures input should reflect an assumption
19 that decarbonization obligations might reduce customer count and non-growth capital
20 should reflect a declining system.³⁴⁷ Staff indicated that because the model did not do

³⁴⁰ Coalition/400, Cebulko/14-15.

³⁴¹ NW Natural/2000, Kravitz-Therrien/18.

³⁴² NW Natural/2000, Kravitz-Therrien/18.

³⁴³ NW Natural/4900, Therrien/20.

³⁴⁴ NW Natural/4900, Therrien/20.

³⁴⁵ NW Natural/4000, Therrien/7.

³⁴⁶ Staff/900, Dlouhy/35.

³⁴⁷ Staff/900, Dlouhy/40.

1 this, it overstated the amount of non-growth capital expenditures, and it did not support
2 this input in the Company's model.³⁴⁸

3 In response to Staff's critique about non-growth capital expenditures, the Company
4 adjusted its non-growth capital expenditure forecast for lower meter and permit costs,
5 resulting in a minor impact on the DCF calculation but still supporting the Company's LEA
6 proposal.³⁴⁹ Staff indicated that it appreciated the Company's responsiveness to its
7 concern and did not pursue any further changes to this portion of the model.³⁵⁰ The non-
8 growth capital expenditures included in the Company's model are reasonable and
9 demonstrate benefits of adding new customers to the system.

10 e. The LEA calculation is not significantly affected by periods during
11 which a home may be unoccupied.

12 Staff's final issue with the Company's modeling relates to periods during which a
13 home may remain unoccupied such as after a customer moves out, or the delay between
14 the time a line extension is installed and the customer takes service.³⁵¹ Staff argues that
15 the model relies on a new customer continuously paying their rates and that a home that
16 remains unoccupied for a number of months provides diminished value to the system.³⁵²

17 However, Staff's own modeling demonstrates that the few months' delay that can
18 occur between line installation and a customer beginning to take service is an insignificant
19 amount of revenue.³⁵³ Indeed, Staff concludes that even removing this input does not
20 change the ultimate result of its model.³⁵⁴ Despite this, the LEA calculation assumes there

³⁴⁸ Staff/900, Dlouhy/40-42.

³⁴⁹ NW Natural/4000, Therrien/16.

³⁵⁰ Staff/3200, Dlouhy/23.

³⁵¹ Staff/900, Dlouhy/36, 43; Staff/3200, Dlouhy/23.

³⁵² Staff/900, Dlouhy/42-43.

³⁵³ NW Natural/4900, Therrien/11; Staff/3200, Dlouhy/23-24.

³⁵⁴ Staff/3200, Dlouhy/24.

1 is a “year zero” and does not include the value of the new customer revenues until year
2 one. Therefore, the model already accounts for this critique, and the impacts on the
3 revenues from other temporary periods in which a home will be unoccupied are *de*
4 *minimis*.

5 f. The LEA model proposed by the Company is flexible and adaptable.

6 Finally, the Company is not proposing that the LEA presented in this case will be
7 static. Instead, the Company fully recognizes that the assumptions and inputs that inform
8 the LEA may change over time.³⁵⁵ In particular, the Company expects that there will be
9 greater certainty regarding GHG compliance costs after the ODEQ concludes its
10 rulemaking to establish future Oregon GHG regulations, and that assumptions regarding
11 RNG pricing may evolve as the RNG market matures.³⁵⁶ Additionally, changes in rates
12 will also necessarily impact the LEA, so NW Natural fully anticipates the need for routine
13 updates to model changing assumptions as a result of new rates being implemented (e.g.,
14 updated DCF cost of capital, billing delivery rates, etc.).³⁵⁷ Accordingly, the Company
15 anticipates the need to update the LEA with new model inputs periodically and plans to
16 do so at least every time it files a rate case.³⁵⁸ Critically, to the extent that there are any
17 major changes in assumptions that become known in the future—for example, if parties’
18 concerns regarding attrition begin to materialize—those changes can be reflected at that
19 time and based on the evidentiary record, not speculation.

20 In sum, neither the parties’ policy nor modeling arguments demonstrate that the
21 LEA should be phased down or eliminated. Instead, the Company’s novel approach to

³⁵⁵ NW Natural/4000, Therrien/7.

³⁵⁶ NW Natural/4000, Therrien/7.

³⁵⁷ NW Natural/4000, Therrien/7.

³⁵⁸ NW Natural/4000, Therrien/7.

1 the LEA to incentivize energy efficient new customers reflects State climate policy and is
2 indicative of the Company's role as policies evolve. The LEA as proposed serves an
3 important purpose to allow responsible growth of the natural gas system while managing
4 compliance with any GHG emissions reduction targets and avoiding unsustainable cost
5 increases for existing customers.

6 **C. Schedule X Administration**

7 The Coalition and CUB criticize the Company's administration of Schedule X, its
8 line extension allowance tariff, and make related rate base adjustments and
9 recommendations for future implementation of the tariff. Based on their view that the
10 Company has provided some customers with LEAs that are inconsistent with Schedule
11 X's terms, the Coalition and CUB ask the Commission to (1) remove from previously
12 Commission-approved rate base the allegedly excess LEA amounts going back to
13 2018,³⁵⁹ (2) remove a portion of the LEA rate base that the Company seeks to add to
14 rates in this case,³⁶⁰ and (3) order an investigation and audit into the Company's LEA
15 administration.³⁶¹

16 The Commission should reject the Coalition and CUB's arguments that the
17 Company is not complying with the terms of Schedule X and each of their resulting
18 recommendations. First, the Company is administering Schedule X consistent with its
19 terms and in a prudent manner that ensures customers benefit, and therefore the
20 recommendations have no basis.³⁶² Second, the parties' unprecedented attempt to

³⁵⁹ CUB/400, Garrett/18; Coalition/400, Cebulko/26-27.

³⁶⁰ CUB/400, Garrett/17-18; Coalition/100, Cebulko/43; Coalition/400, Cebulko/27.

³⁶¹ CUB/400, Garrett/17; Coalition/400, Cebulko/27.

³⁶² NW Natural/5000, Zaubi-Kravitz/28.

1 remove previously approved rate base would not only upset the stipulations and
2 Commission approval orders from the Company’s past three rate cases,³⁶³ but also
3 constitutes improper retroactive ratemaking. Adopting this adjustment would dramatically
4 increase the level of regulatory risk Oregon utilities face and likely have significant
5 negative impacts on utilities’ financial health. Third, no investigation, audit, or future
6 guidance is warranted or necessary.³⁶⁴ But if the Commission were to require the
7 Company to change its approach to administering LEAs, it should make limited changes
8 on a prospective basis only.

9 1. *Background regarding Schedule X*

10 Consistent with NW Natural’s obligation under OAR 860-021-0050(1) to develop
11 “a uniform policy governing the amount of service extension that will be made free to
12 connect a new customer[.]”³⁶⁵ the Company’s Schedule X provides the terms under which
13 NW Natural will install distribution facilities to provide gas service to new residential,
14 commercial, and industrial customers.³⁶⁶ Among the terms set forth in Schedule X is the
15 methodology for determining both the amount of the credit the Company must offer a
16 customer to offset the costs of constructing distribution facilities to connect the customer’s
17 property to the gas system—which is known as the “line extension allowance” or
18 “construction allowance”—and the amount of the “construction contribution” that the
19 customer must pay when the estimated costs of construction exceed the construction
20 allowance.³⁶⁷

³⁶³ NW Natural/5000, Zaubi-Kravitz/7.

³⁶⁴ NW Natural/5000, Zaubi-Kravitz/19.

³⁶⁵ OAR 860-021-0050(1).

³⁶⁶ NW Natural/4100, Zaubi/2.

³⁶⁷ NW Natural/4100, Zaubi/2-3.

1 Specifically, Schedule X describes how NW Natural will develop construction cost
2 estimates for each new applicant.³⁶⁸ Construction costs for the typical residential
3 customer are based on the Company's historical system average costs.³⁶⁹ The historical
4 average costs used to estimate construction costs for most new residential customers are
5 reviewed and updated annually based on the Company's actual costs of construction for
6 residential new connections.³⁷⁰ The Company computes the average costs of all
7 residential connections by service type, so a new premises will use the historical average
8 construction costs for the same type of service line.³⁷¹ For example, a single-family new
9 construction premises will use the historical average construction costs for a single-family
10 new construction service line.³⁷² For all conversion customers (existing homes that add
11 natural gas) and sites with rocky conditions or other known extraordinary construction
12 conditions, NW Natural will perform a site-specific cost estimate.³⁷³ All main extension
13 construction costs are also based upon a site-specific estimate.³⁷⁴

14 Schedule X also explains how the construction allowance is determined for
15 different customer classes and time periods.³⁷⁵ Currently, the construction allowance for
16 residential customers is based on a margin multiplier that phases down over three
17 years.³⁷⁶ Prior to the Company's last rate case, docket UG 435, the construction

³⁶⁸ See NW Natural/5001, Zaubi-Kravitz/3.

³⁶⁹ NW Natural/5001, Zaubi-Kravitz/3; NW Natural/4100, Zaubi/7.

³⁷⁰ NW Natural/5001, Zaubi-Kravitz/3.

³⁷¹ NW Natural/4100, Zaubi/6-8.

³⁷² NW Natural/4100, Zaubi/6, 8.

³⁷³ NW Natural/5000, Zaubi-Kravitz/14, 25; NW Natural/4100, Zaubi/7.

³⁷⁴ NW Natural/5001, Zaubi-Kravitz/3; NW Natural/4100, Zaubi/7.

³⁷⁵ NW Natural/5001, Zaubi-Kravitz/5-6.

³⁷⁶ NW Natural/4100, Zaubi/4.

1 allowance was based on the type of gas appliance the customer planned to use.³⁷⁷ The
 2 maximum residential construction allowances applicable in different time periods are
 3 summarized in Table 3 below.

Table 3. Maximum Residential Construction Allowances

Time Period	Maximum Residential LEA	Notes
Nov. 1, 2012-Oct. 31, 2022	\$2,875	Applicable to customers installing natural gas space heating ³⁷⁸
Nov. 1, 2022-Oct. 31, 2023	\$2,300	Maximum under 5 times margin approach ³⁷⁹
Nov. 1, 2023-Oct. 31, 2024	\$1,850	Maximum under 4 times margin approach ³⁸⁰

4 During all relevant time periods, Schedule X required a customer contribution if the
 5 applicable construction allowance was less than the construction cost³⁸¹—meaning that
 6 a new customer is responsible for estimated costs of construction that exceed the
 7 construction allowance.³⁸² The Company enters into a written agreement with the new
 8 customer to memorialize the new customer’s responsibility for any construction
 9 contribution.³⁸³ If the actual cost of construction is ultimately higher than the estimated
 10 construction costs, the Company honors the estimate and does not require an additional
 11 customer contribution.³⁸⁴ The full construction costs are included in plant whether or not
 12 construction costs are higher than estimated.³⁸⁵

³⁷⁷ CUB/400, Garrett/8, Table 1.

³⁷⁸ CUB/400, Garrett/8, Table 1.

³⁷⁹ NW Natural/4100, Zaubi/5.

³⁸⁰ NW Natural/4100, Zaubi/5.

³⁸¹ NW Natural/5001, Zaubi-Kravitz/6 (relevant portion of Schedule X); CUB/402, Garrett/1 (showing relevant portion of Schedule X has been in effect since 2012).

³⁸² NW Natural/4100, Zaubi/3-4.

³⁸³ NW Natural/4100, Zaubi/8.

³⁸⁴ NW Natural/4100, Zaubi/13.

³⁸⁵ NW Natural/4100, Zaubi/13.

1 2. *NW Natural consistently has complied with the provisions of Schedule X*
2 *and administered LEAs prudently in a way that benefits existing customers.*

3 Both the Coalition and CUB claim that NW Natural’s approach to residential LEAs
4 violates the terms of Schedule X because the Company does not require an additional
5 customer contribution if the actual construction costs exceed the estimated construction
6 costs that were used to calculate the customer contribution included in the written LEA
7 agreement between the Company and the customer. Both parties refer to the
8 construction allowance amounts provided in the tariff as a “cap” and contend that any
9 amount in excess of that “cap” constitutes imprudent overspending for which recovery
10 should be disallowed.³⁸⁶ However, the parties’ interpretation is not supported by the
11 language of Schedule X, and the unrebutted evidence in the record demonstrates that
12 the Company’s LEA administration and the resulting rate base are prudent.

13 Under Schedule X, the required customer contribution is determined by comparing
14 the applicable construction allowance and the construction cost,³⁸⁷ and for most
15 residential customers, the construction cost is based on the Company’s historical system
16 average for the same service type.³⁸⁸ While Schedule X provides that any excess
17 customer contribution should be refunded where a site-specific estimate of construction
18 costs is used and actual costs are less than the estimate, Schedule X does not require
19 the Company to obtain an additional customer contribution where the reverse is true.³⁸⁹
20 Similarly, Schedule X is silent regarding a true-up in either direction when construction
21 costs are based on an historical average, rather than a site-specific estimate.³⁹⁰ This

³⁸⁶ Coalition/400, Cebulko/4; CUB/400, Garrett/9.

³⁸⁷ NW Natural/5001, Zaubi-Kravitz/6.

³⁸⁸ NW Natural/5001, Zaubi-Kravitz/3; NW Natural/4100, Zaubi/6-7.

³⁸⁹ NW Natural/5001, Zaubi-Kravitz/6-7.

³⁹⁰ NW Natural/5001, Zaubi-Kravitz/6-7.

1 makes sense because truing up the customer contribution to reflect actual cost for each
2 and every LEA for thousands of new customers would be overly complex.³⁹¹ In sum,
3 nothing in the language of Schedule X supports the Coalition and CUB’s view that the
4 Company violates the tariff by failing to obtain an additional customer contribution when
5 actual construction costs exceed estimated costs.

6 Moreover, the record shows that the Company’s administration of Schedule X
7 results in a net benefit to existing customers, despite the fact that, for a minority of new
8 customers, the actual construction costs exceed the estimated amount used to calculate
9 the customer contribution.³⁹² In every year since 2018, the net capital cost of LEAs NW
10 Natural provided to new customers was less than the applicable construction
11 allowance.³⁹³ For example, in 2023, more than 80 percent of NW Natural’s residential
12 line extensions cost less than the construction allowance in Schedule X—totaling \$28.2
13 million less than if each customer had received the construction allowance in the tariff,
14 and providing a net benefit to all customers.³⁹⁴ And in each year since 2018, the present
15 value revenue requirement (“PVRR”) was negative—meaning that existing customers
16 were not harmed by including the LEA amounts in rate base.³⁹⁵ Neither the Coalition nor
17 CUB rebutted the Company’s PVRR analysis.³⁹⁶

18 Furthermore, the parties’ claims that the LEA rate base is imprudent are improperly
19 based on hindsight—rather than the information NW Natural had at the time it granted

³⁹¹ See NW Natural/5000, Zaubi-Kravitz/3; NW Natural/4900, Therrien/23-24.

³⁹² NW Natural/5000, Zaubi-Kravitz/19, 23-24.

³⁹³ NW Natural/5000, Zaubi-Kravitz/15-16.

³⁹⁴ NW Natural/5000, Zaubi-Kravitz/18, 23-24.

³⁹⁵ NW Natural/5000, Zaubi-Kravitz/16, 21.

³⁹⁶ NW Natural/5000, Zaubi-Kravitz/21.

1 each LEA. The Commission’s prudence review standard considers an investment “from
2 the point in time of the utility’s actions” and reaches a decision “without the advantage of
3 hindsight.”³⁹⁷ The utility’s decision-making process is critical to the prudence analysis.³⁹⁸
4 Here, NW Natural’s testimony shows that in determining the amount of the construction
5 contribution to collect from customers under Schedule X, the Company has a process to
6 analyze historical data to determine the historical system average used to estimate
7 construction costs for most new customers, and annually updates the historical system
8 average.³⁹⁹ However, for conversion customers and where extraordinary circumstances
9 are present such that the historical average may not be accurate, the Company develops
10 a site-specific estimate, consistent with the terms of Schedule X.⁴⁰⁰ Due to the nature of
11 an average, actual construction costs will likely be higher than the average-based
12 estimate approximately half of the time⁴⁰¹—but that does not mean that NW Natural’s
13 reliance on the average, as is specifically contemplated in its tariff, was imprudent at the
14 time the Company calculated the customer contribution and entered an LEA agreement
15 with the new customer.

16 Finally, the Coalition and CUB inappropriately propose a broad disallowance of
17 any amounts that exceed the construction allowance—rather than undertaking any
18 individualized analysis.⁴⁰² For example, neither party has alleged that the Company
19 improperly estimated construction costs—much less provided any supporting analysis.⁴⁰³

³⁹⁷ *In re PacifiCorp, dba Pacific Power, Request for General Rate Revision*, Docket UE 374, Order No. 20-473 at 74 (Dec. 18, 2020).

³⁹⁸ Order No. 20-473 at 74.

³⁹⁹ NW Natural/4100, Zaubi/15-16; NW Natural/5000, Zaubi-Kravitz/20-21.

⁴⁰⁰ NW Natural/5001, Zaubi-Kravitz/3.

⁴⁰¹ NW Natural/5000, Zaubi-Kravitz/14-15.

⁴⁰² CUB/400, Garrett/17; Coalition/100, Cebulko/43-44.

⁴⁰³ NW Natural/5000, Zaubi-Kravitz/23.

1 The Commission has made clear that, “adjustments should generally be based on
2 thorough assessments of individual projects,” rather than broad categories.⁴⁰⁴ Here, the
3 parties’ categorical claims of imprudence do not meet this standard.

4 Because the record shows that the Company has complied with Schedule X and
5 administered it prudently, based on the best information available at the time it entered
6 each LEA agreement, there is no basis for the Coalition and CUB’s blanket adjustment to
7 remove all Test Year LEA amounts that exceed the construction allowance.⁴⁰⁵

8 3. *The Commission should reject the Coalition and CUB’s inappropriate*
9 *proposal to remove previously approved amounts from rate base.*

10 In addition to challenging the LEA amounts the Company proposes to add to rate
11 base in this case, the Coalition and CUB—for the first time in their rebuttal testimony—
12 proposed to remove from previously approved rate base the amounts of alleged LEA
13 overspend dating back to 2018.⁴⁰⁶ But these amounts are prudent for the reasons
14 described above, and this late-raised recommendation must also be rejected as an
15 improper attempt to relitigate prior rate cases, impermissible retroactive ratemaking, and
16 bad policy.

⁴⁰⁴ Order No. 20-473 at 41; see also *In re Avista Corporation, dba Avista Utilities, Request for a General Rate Revision (UG 288) and Application for Authorization to Defer Expenses or Revenues Related to the Natural Gas Decoupling Mechanism (UM 1753)*, Dockets UG 288 & UM 1753, Order No. 16-109 at 13 (Mar. 15, 2016).

⁴⁰⁵ The Coalition estimates the amount of the adjustment to be \$2,222,531 for the 2023 Test Year. Coalition/100, Cebulko/43. However, the Coalition miscalculates 2022 amounts and multi-family LEAs. At the time the Company entered into service agreements with new customers in 2022, the LEA was still \$2,875. There is typically a delay between when customers sign a service agreement and when construction actually occurs. As such, the calendar year 2023 for new plant placed in service for residential customer additions would include LEAs from 2022. Additionally, there are work orders included in the 2023 residential connections that include multi-family residential premises. Those premises are captured in a single work order, but would have multiple meters associated with them, and therefore, be entitled to an LEA for each new customer addition. When accounting for these corrections, the Coalition’s proposed disallowance is overestimated by \$320,590. NW Natural/4100, Zaubi/16-17.

⁴⁰⁶ CUB/400, Garrett/17-18; Coalition/400, Cebulko/26-27.

1 a. The Coalition and CUB improperly seek to relitigate an issue that
2 was resolved in prior rate cases.

3 The Commission already found prudent the LEA amounts included in rate base
4 and should not revisit its prudence determination in this case. The Company's rate base
5 since January 1, 2018, was approved in three rate cases—dockets UG 344, UG 388, and
6 UG 435.⁴⁰⁷ In each case, the Commission adopted a stipulation that resolved both the
7 amount of plant entering rate base since the Company's last rate case and the addition
8 of customer-growth-related rate base in the forward test year.⁴⁰⁸

9 The Commission can and should prevent parties from relitigating an issue that it
10 already resolved where the facts have not changed.⁴⁰⁹ The Commission has previously
11 rejected claims of imprudence when the claims were raised in a subsequent case after
12 the Commission already authorized recovery, stating that although the Commission did
13 not specifically address the issue in the prior case, "the Commission would not have
14 authorized recovery . . . if those costs had not been prudently incurred."⁴¹⁰ In fact, NW
15 Natural is not aware of any precedent supporting the Coalition and CUB's attempt to
16 remove previously approved rate base, and the Commission should decline to revisit the
17 prudence of the LEA rate base challenged in this case.

⁴⁰⁷ NW Natural/5000, Zaubi-Kravitz/7-8.

⁴⁰⁸ NW Natural/5004, Zaubi-Kravitz/6-7; NW Natural/5003, Zaubi-Kravitz/4; NW Natural/5002, Zaubi-Kravitz/5-6.

⁴⁰⁹ See Or Op Atty Gen OP-6454, [1992 Ore. AG LEXIS 19, *28-29](#) (1992); *In re Portland Gen. Elec. Co.'s Application for an Accounting Order and for Order Approving Tariff Sheets Implementing Rate Reduction*, Docket UM 989, Order No. 08-487 at 42 (Sept. 30, 2008) ("legal constraints on collateral attacks of final rate orders prohibit the Commission from reconsidering and adjusting past rates that were lawfully established and either were not appealed or were upheld on appeal").

⁴¹⁰ *In re Portland General Electric Company Application to Amortize the Boardman Deferral*, Docket UE 196, Order No. 10-051 at 8 n.15 (Feb. 11, 2010) (citing *In re PacifiCorp*, Dockets UM 995, UE 121, & UC 578, Order No. 02-469 at 7 (Jul. 18, 2002)).

1 Here, the Coalition and CUB’s historical adjustment is especially problematic
2 because it amounts to a delayed and impermissible attack on the provisions of prior rate
3 case stipulations which CUB signed and which the Coalition did not oppose.⁴¹¹ In dockets
4 UG 344,⁴¹² UG 388,⁴¹³ and UG 435,⁴¹⁴ CUB joined the revenue requirement stipulations,
5 all of which included the amounts in rate base that CUB now seeks to remove.⁴¹⁵ Each
6 of these stipulations required CUB to support the stipulation’s terms.⁴¹⁶ Now, CUB seeks
7 to remove components from the agreed-upon rate base in contravention of its agreement
8 in each of these stipulations. CUB’s request is an improper collateral attack on the
9 stipulations that it agreed to defend. The Commission has recently observed that
10 “allowing a party to sign a stipulation and then fail to fulfill its obligations under that
11 agreement” would create a “troubling precedent.”⁴¹⁷ In addition to being improper, CUB
12 and the Coalition’s attack on the stipulations is untimely because the time for requesting
13 reconsideration or appeal has passed.⁴¹⁸ Moreover, any decision to revise or reject the
14 stipulations from past rate cases could require significant additional process because it

⁴¹¹ The Coalition did not participate in dockets UG 344 and UG 388 and did not oppose the relevant portion of the docket UG 435 stipulation. Order No. 22-388 at 10-16.

⁴¹² NW Natural/5002, Zaubi-Kravitz/3-4.

⁴¹³ NW Natural/5003, Zaubi-Kravitz/2-3.

⁴¹⁴ NW Natural/5004, Zaubi-Kravitz/2-3.

⁴¹⁵ NW Natural/5000, Zaubi-Kravitz/8.

⁴¹⁶ NW Natural/5004, Zaubi-Kravitz/13; NW Natural/5003, Zaubi-Kravitz/10; NW Natural/5002, Zaubi-Kravitz/9.

⁴¹⁷ *In re Portland Gen. Elec. Co., Request for a General Rate Revision; and 2024 Annual Power Cost Update*, Docket UE 416, Order No. 23-477 at 7 (Dec. 18, 2023). Although the Commission ultimately modified the challenged stipulation in docket UE 416, it made clear that its decision applied only to the narrow circumstances present in that case. Order No. 23-477 at 7-8.

⁴¹⁸ OAR 860-001-0720(1) (indicating a party may file for reconsideration within 60 days from the date of service of an order entered by the Commission); ORS 183.482(1) (specifying that a party may seek judicial review of a final order within 60 days of such order).

1 would give all of the stipulating parties in each case an opportunity to withdraw from the
2 stipulations.⁴¹⁹

3 Allowing potentially endless reexamination of prior prudence determinations would
4 strain the Commission’s and parties’ resources and undermine judicial efficiency. The
5 Coalition and CUB advocate for an investigation into pre-2018 LEAs, and CUB observed
6 that the concerns parties raised may affect rate base going back decades.⁴²⁰ If the
7 Commission opens the door to revisiting approved rate base, parties will likely propose
8 additional adjustments beyond those proposed in this case. And, as discussed in greater
9 detail below, setting such a precedent would negatively impact the regulatory
10 environment for Oregon utilities, compromising utilities’ access to capital. For all of these
11 reasons, the Commission should draw the line at revisiting previously approved rate base
12 and should decline to upend past Commission-approved stipulations in this case.

13 b. The Coalition and CUB’s requested relief is impermissible retroactive
14 ratemaking.

15 The Coalition and CUB advance a new interpretation of the customer contribution
16 requirement in Schedule X and ask the Commission to implement this new policy by
17 removing LEA-related plant that is not fully depreciated from NW Natural’s rate base
18 going forward.⁴²¹ Although they seek to adjust rates prospectively, their requested
19 remedy is prohibited retroactive ratemaking. “The rule against retroactive ratemaking and
20 legal constraints on collateral attacks of final rate orders prohibit the Commission from
21 reconsidering and adjusting past rates that were lawfully established and either were not

⁴¹⁹ NW Natural/5004, Zaubi-Kravitz/14 (indicating parties may withdraw from stipulation if Commission rejects any material portion or imposes additional material conditions); NW Natural/5003, Zaubi-Kravitz/10 (same); NW Natural/5002, Zaubi-Kravitz/10 (same).

⁴²⁰ CUB/400, Garrett/17; Coalition/400, Cebulko/27-28.

⁴²¹ CUB/400, Garrett/17; Coalition/400, Cebulko/26.

1 appealed or were upheld on appeal.”⁴²² The rule against retroactive ratemaking also
2 prevents the Commission from “setting future rates to allow a utility to recoup past losses
3 or to refund to consumers excess utility profits.”⁴²³ Even in the limited circumstances
4 where the Commission may permissibly adjust past rates, it may not do so by offsetting
5 future rates.⁴²⁴

6 Here, the Commission orders adopting the stipulations and approving the rate
7 base amounts were not challenged, and the facts relevant to the prudence of the LEA
8 rate base have not changed. Therefore, there is no basis for the Commission to order
9 refunds of past rates that included those amounts. Certainly, the new arguments the
10 Coalition and CUB advance do not provide such a basis—for all of the reasons discussed
11 above. While the Commission can adopt a new interpretation of Schedule X’s
12 requirements going forward, it cannot adjust previously approved rates after the fact
13 based on a new interpretation. For the same reasons that refunds of past rates are not
14 justified or permitted, there is no basis to adjust future rates to remove the disputed LEA
15 rate base amounts. The Coalition and CUB should not be allowed to collaterally attack
16 past orders and accomplish prospectively what they are plainly prohibited from achieving
17 retroactively.

18 Finally, even where a ratemaking order is appealed and ultimately overturned,
19 refunds are not appropriate unless the Commission finds that “the error identified by the
20 reviewing court rendered rates unjust and unreasonable or unjustly discriminatory.”⁴²⁵

⁴²² Order No. 08-487 at 42.

⁴²³ *Gearhart v. PUC*, 356 Or 216, 237 (2014) (internal citations omitted).

⁴²⁴ Order No. 08-487 at 42.

⁴²⁵ Order No. 08-487 at 42.

1 Here, there were no such appeals, but even if parties' claims regarding implementation
2 of Schedule X had any merit, nothing in the record suggests that NW Natural's rates,
3 inclusive of the LEA rate base that parties seek to remove, are unjust and unreasonable.

4 c. Removing previously approved plant from rate base would
5 undermine regulatory certainty and decrease investor confidence in
6 Oregon's regulatory environment.

7 In addition to the legal prohibitions on removing previously approved rate base,
8 broader policy considerations also support rejecting the Coalition and CUB's request and
9 upholding the Commission's prior prudence determinations. The stability of the regulatory
10 environment in Oregon would be significantly undermined if the Commission found that
11 prudence determinations could be revisited and reversed at any time in a future case and
12 that plant that continues to be used and useful and that is not fully depreciated could be
13 removed from rates. Utilities and their investors would no longer be able to rely on
14 Commission prudence determinations—creating significant additional risk and financial
15 uncertainty. Such a monumental change in Oregon's regulatory landscape would likely
16 undermine investor confidence and negatively affect all of Oregon's investor-owned
17 utilities' ability to access capital at favorable rates.⁴²⁶ For NW Natural in particular,
18 Moody's has stated that the Company could be downgraded "if NW Natural's regulatory
19 environment becomes less credit supportive[.]"⁴²⁷ The Commission should reject the
20 Coalition and CUB's adjustment to maintain a predictable, consistent, and supportive

⁴²⁶ See, e.g., Stefan H. Krieger, *The Ghost of Regulation Past: Current Application of the Rule Against Retroactive Ratemaking in Public Utility Proceedings*, 1991 U. ILL. L. REV. 983, 1039 (1991) (observing that if "investors could not rely on the rates fixed by commissions, utilities would find it difficult to attract capital").

⁴²⁷ NW Natural/400, Coyne-Nelson/51.

1 regulatory environment, which is critical to support NW Natural's ongoing financial
2 health.⁴²⁸

3 4. *There is no need for the Commission to open an investigation or audit into*
4 *the Company's LEA practice, and any change in policy should be limited in*
5 *scope and prospective in nature.*

6 The Coalition recommends the Commission order an investigation and audit into
7 the Company's residential and nonresidential line extension allowances.⁴²⁹ CUB joins
8 the Coalition in recommending an audit and asks that the Commission consider extending
9 the scope of that audit further back than 2018.⁴³⁰ For all of the reasons explained above,
10 the Company disagrees that any investigation is necessary.

11 If the Commission were to determine that changes to the Company's Schedule X
12 administration were warranted, those changes should be applied prospectively only. On
13 a prospective basis, the Company would be willing to require new customers, who have
14 not yet submitted applications for service that are approved or pending as of the rate-
15 effective date, to be responsible for construction costs that are more than 25 percent
16 greater than the estimate used to calculate the original customer contribution.⁴³¹ As
17 shown in NW Natural's testimony, the vast majority of line extensions cost near the
18 historical average—for 2023 for example, 99 percent of work orders cost below \$10,000
19 and 85 percent cost between \$1,000 and \$5,000.⁴³² The Company's alternative approach
20 to administering the LEA in the future would address outliers where actual costs
21 significantly exceed the estimate, without requiring the Company to obtain an additional

⁴²⁸ See NW Natural/400, Coyne-Nelson/45.

⁴²⁹ Coalition/400, Cebulko/27.

⁴³⁰ CUB/400, Garrett/17.

⁴³¹ NW Natural/5000, Zaubi-Kravitz/28.

⁴³² NW Natural/4100, Zaubi/18.

1 customer contribution for the vast majority of connections where the actual cost is close
2 to the estimate. Implementing this approach on a prospective basis would ensure that
3 prospective customers have adequate notice that they could be responsible for additional
4 costs and represents a reasonable approach to balancing all parties' concerns going
5 forward.⁴³³

6 **D. RNG AAC**

7 The Company proposes to modify Schedule 198, the RNG AAC, to (1) address
8 regulatory treatment prior to RNG investments being included in rates through a deferral
9 or flexibility in the timing of the RNG AAC filing; and (2) remove disincentives in the
10 Schedule 198 earnings test that inadvertently inhibit higher than forecasted RNG
11 production by eliminating the deadbands in the earnings test. Staff and CUB oppose both
12 changes. Staff argues that the current RNG AAC benefits the Company at the expense
13 of customers and maintains that a deferral would exacerbate its perceived imbalance.⁴³⁴
14 CUB echoes this concern, arguing that the Company's proposed changes benefit the
15 Company over customers, "giving more favorable ratemaking treatment to RNG
16 investments."⁴³⁵ On the second proposed change, Staff argues that updating the
17 earnings test in Schedule 198 would only benefit the Company slightly,⁴³⁶ while CUB
18 maintains that "[a]n earnings test is necessary to incentivize NW Natural to operate
19 efficiently."⁴³⁷

⁴³³ See NW Natural/5000, Zaubi-Kravitz/28.

⁴³⁴ Staff/900, Dlouhy/16.

⁴³⁵ CUB/100, Jenks/24.

⁴³⁶ Staff/900, Dlouhy/18-22; Staff/3200, Dlouhy/12.

⁴³⁷ CUB/100, Jenks/29.

1 The Commission should reject these arguments from Staff and CUB and conclude
2 that the Company’s proposed changes to Schedule 198 will create greater benefits to
3 customers by facilitating timely recovery of RNG investments and removing disincentives
4 to achieving higher than forecasted RNG production.

5 1. *Background regarding RNG AAC*

6 The RNG AAC was adopted in NW Natural’s most recent rate case, docket
7 UG 435, and was a fully litigated issue in that case.⁴³⁸ Schedule 198 allows the Company
8 to recover the costs of RNG investments outside of a general rate case.⁴³⁹ Schedule 198
9 is designed to allow the Company to recover NW Natural’s “qualified investments” in RNG
10 infrastructure pursuant to ORS 757.390 – 398, or SB 98,⁴⁴⁰ and, in Order No. 22-388, the
11 Commission also recognized that RNG would be used to address compliance with the
12 CPP, which was subsequently invalidated by the Oregon Court of Appeals.⁴⁴¹

13 Since Schedule 198 was established, NW Natural has used it once for the Dakota
14 City RNG project, which equals approximately 0.14 percent of the Company’s current
15 Oregon sales load.⁴⁴² Although the Company plans to continue its cautious and careful
16 approach to RNG acquisitions, it will likely have to acquire increasing amounts to both
17 meet SB 98 targets and comply with future Oregon GHG regulations. Therefore, NW
18 Natural seeks two limited changes to Schedule 198 to remove disincentives to the
19 production of RNG to the benefit of both customers and the Company. *First*, the Company

⁴³⁸ Order No. 22-388 at 64-86.

⁴³⁹ NW Natural/2000, Kravitz-Therrien/10.

⁴⁴⁰ NW Natural/1500, Kravitz-Chittum/3.

⁴⁴¹ Order No. 22-388 at 81-82.

⁴⁴² NW Natural/3600, Kravitz-Griffiths/18. The Lexington RNG project is also recovered through Schedule 198. However, the Company sought approval of Lexington and Schedule 198 simultaneously in its last general rate case (docket UG 435). The Company has only sought recovery of one RNG project, Dakota City, through Schedule 198 that was approved in Order No. 22-388. See *id.*

1 seeks to add a deferral mechanism to Schedule 198 to ensure the Company has the
2 opportunity to recover prudently incurred costs that are necessary to comply with State
3 emissions reductions regulations and voluntary environmental targets.⁴⁴³ *Second*,
4 Schedule 198 contains an earnings test with deadbands 50 basis points above and 50
5 basis points below the Company's authorized ROE.⁴⁴⁴ NW Natural proposes eliminating
6 the deadbands in the earnings test and instead setting the earnings test at the authorized
7 ROE.⁴⁴⁵

8 2. *A deferral or expansion of Schedule 198's filing timeline will allow the*
9 *Company to request prudently incurred costs of obtaining RNG.*

10 Currently, NW Natural is not permitted to defer, for later cost recovery, the costs
11 of its RNG investments between the investment's in-service date and the rate effective
12 date. Instead, Schedule 198 requires the Company to make a filing to include new RNG
13 projects in rates by February 28 of any given year.⁴⁴⁶ For projects that come into service
14 between that date and the rate effective date, the Company has no recovery mechanism.
15 This type of regulatory lag prevents the Company from fully recovering its costs
16 associated with responsible acquisition of RNG and creates a disincentive to put RNG
17 projects in-service as soon as possible.

18 a. The use of a deferral for the RNG AAC will not result in NW Natural
19 favoring RNG over other least cost/least risk decarbonization
20 pathways.

21 Staff argues that "an overly generous RNG AAC mechanism would incentivize the
22 Company to unfairly favor RNG investments[.]"⁴⁴⁷ While the Commission in docket

⁴⁴³ NW Natural/1500, Kravitz-Chittum/14-15; NW Natural/4700, Kravitz-Griffiths/1.

⁴⁴⁴ NW Natural/1500, Kravitz-Chittum/18; NW Natural/1717, Walker/27-28.

⁴⁴⁵ NW Natural/1500, Kravitz-Chittum/20.

⁴⁴⁶ NW Natural/1717, Walker/27-28.

⁴⁴⁷ Staff/900, Dlouhy/17.

1 UG 435 declined the Company’s proposed use of a deferral with the RNG AAC for that
2 reason—concluding that if rate treatment for RNG were too favorable, NW Natural may
3 pursue RNG projects at the expense of other decarbonization projects—such facts are
4 not present here.⁴⁴⁸ As explained above, the Company has used Schedule 198 just once
5 for a small project that equals approximately 0.14 percent of the Company’s current
6 Oregon sales load. Going forward, NW Natural will pursue compliance with future GHG
7 regulations on a least cost/least risk basis using the tools available to the Company.⁴⁴⁹
8 NW Natural anticipates that it will still need to acquire a substantial amount of RNG, and
9 thus is seeking rate treatment that balances the interests of the Company and
10 customers.⁴⁵⁰ While Staff reprises the concern from docket UG 435 that NW Natural
11 would not pursue other least cost decarbonization pathways, that concern is not at all
12 supported by the record in this case.

13 b. Schedule 198 should include a deferral, similar to the Renewable
14 Resources Adjustment Clauses (“RRACs”) for electric utilities.

15 The Company’s proposal to include a deferral for Schedule 198 is similar to the
16 RRACs used by electric utilities that permit them to defer the cost of renewable electric
17 generation projects between the in-service date and the rate effective date. These RRACs
18 permit the electric utilities to meet Oregon’s renewable portfolio standards.⁴⁵¹ Similarly,
19 the Company’s proposed deferral will work in tandem with future GHG emissions

⁴⁴⁸ Order No. 22-388 at 81 (“It is possible that a prudent strategy may include RNG, but this will depend on the costs and risks relative to alternatives. We are concerned about the potential incentive created by the availability of an AAC to skew the company’s analysis of costs and risks of alternative CPP compliance measures towards RNG projects.”). The Commission ultimately found a deferral was not appropriate, stating “given our concerns about the interactions between the CPP and the AAC described above, it is appropriate to require a rate change to be implemented before the company can recognize revenues from the recovery for RNG projects.” Order No. 22-388 at 83.

⁴⁴⁹ NW Natural/1500, Kravitz-Chittum/12, 16-17.

⁴⁵⁰ NW Natural/1500, Kravitz-Chittum/13, 17.

⁴⁵¹ NW Natural/3600, Kravitz-Griffiths/14-15; NW Natural/4700, Kravitz-Griffiths/15-16.

1 regulations, as well as SB 98. In the alternative, the Company proposes revising Schedule
2 198 to allow more flexibility in the timing for the filings so that the Company can file for
3 rates to go into effect shortly after the project goes into service.⁴⁵² Either of these
4 approaches will lead to the same result where NW Natural is able to recover the costs
5 that it incurs between the in-service date and rate effective date, which will allow the
6 Company to recover prudently incurred costs associated with RNG acquisitions.

7 Staff and CUB oppose adding a deferral to Schedule 198, arguing that there is no
8 statutory or other mandate that requires a deferral. Staff maintains that the Company does
9 not have any mandated compliance targets for emissions reductions at this time⁴⁵³ and
10 states that it cannot evaluate RNG as a compliance resource until such regulations are
11 adopted.⁴⁵⁴ Similarly, CUB argues that the Company’s proposal “is not grounded in any
12 legal obligation,” so the changes “should be rejected.”⁴⁵⁵ Staff maintains that even if the
13 Company did have mandatory compliance goals, the RRACs are distinguishable from the
14 RNG AAC.⁴⁵⁶ Staff argues that electric utilities were required to use renewable energy to
15 meet GHG emissions reductions goals, while the Company could, “in theory,” meet any
16 mandatory emissions targets “by reducing its natural gas load to a non-zero level that
17 brings its emissions below the CPP cap through strategic electrification, energy efficiency,
18 non-pipes alternatives, or other means.”⁴⁵⁷ However, in Rebuttal Testimony, Staff
19 concedes that “it would be infeasible to assume that non-pipes alternatives would be the

⁴⁵² NW Natural/1500, Kravitz-Chittum/17-18.

⁴⁵³ Staff/900, Dlouhy/17.

⁴⁵⁴ Staff/900, Dlouhy/17-18.

⁴⁵⁵ CUB/100, Jenks/26-27.

⁴⁵⁶ Staff/900, Dlouhy/17.

⁴⁵⁷ Staff/900, Dlouhy/15.

1 only means to comply with the State’s decarbonization targets at this time.”⁴⁵⁸ CUB also
2 disagrees with the comparison, arguing that the RRACs are governed by cost recovery
3 language that does not apply to NW Natural.⁴⁵⁹

4 While Staff opposes adding a deferral to the RNG AAC in part because Oregon
5 has not adopted any mandatory decarbonization requirements for the Company,⁴⁶⁰
6 ODEQ is currently conducting a rulemaking process to adopt such regulations. NW
7 Natural must continue acquiring the RNG it will need to meet the expected targets that
8 are set by new GHG regulations. It is unreasonable to require the Company to bear the
9 costs and suffer regulatory lag for these projects that will be used for compliance with
10 decarbonization regulations. Instead, NW Natural seeks ratemaking treatment that
11 balances the interests of the Company and customers while also recognizing that NW
12 Natural **must** acquire RNG to meet emissions reductions goals. Accordingly, Schedule
13 198 should receive the same treatment as electric utilities do through their RRACs.

14 c. The use of a deferral strikes the appropriate balance between
15 customers and the Company.

16 Staff additionally argues that the RNG AAC already benefits the Company at the
17 expense of customers and that a deferral would exacerbate this imbalance,⁴⁶¹ and
18 maintains that a “deferral would remove essentially all performance risk from the
19 Company without a quantifiable benefit for customers.”⁴⁶² CUB echoes this position
20 arguing that “a deferral to track RNG costs between the in-service date would result in an
21 inequitable distribution of cost and risk, with the Company’s customers holding the short

⁴⁵⁸ Staff/3200, Dlouhy/10.

⁴⁵⁹ CUB/100, Jenks/27.

⁴⁶⁰ Staff/900, Dlouhy/17-18.

⁴⁶¹ Staff/900, Dlouhy/16.

⁴⁶² Staff/900, Dlouhy/18.

1 end of the stick.”⁴⁶³ CUB also argues that adding a deferral to Schedule 198 will have an
2 effect on NW Natural’s decarbonization strategy and that such favorable treatment
3 through the RNG AAC will “skew [the Company’s] analysis in favor of RNG
4 investments.”⁴⁶⁴ CUB argues instead that the Company should have to first demonstrate
5 that RNG procurement is the least cost/least risk manner of complying with
6 decarbonization goals.⁴⁶⁵

7 Despite Staff’s and CUB’s arguments, the Company’s proposed deferral does not
8 improperly shift risk onto customers but instead creates a fair opportunity for the Company
9 to seek prudently incurred costs that occur between a project’s in-service date and the
10 rate effective date; the deferral would not guarantee cost recovery. At its core, Staff’s
11 concern about risk is related to the prudence of a particular investment, not the
12 appropriateness of a deferral. Even with a deferral, the prudence of any RNG investments
13 will be fully investigated as part of the RNG AAC filing. Importantly, customers will benefit
14 from RNG produced during the period between the in-service date and the rate effective
15 date, particularly if it is used to comply with future Oregon GHG regulations.⁴⁶⁶ The
16 Company has developed its RNG acquisition strategy in line with Commission guidance
17 and, again, in the two years that Schedule 198 has existed, the Company has only used
18 it for one small RNG project.⁴⁶⁷ Therefore, there is no evidence that Schedule 198 has
19 been used to “skew” the Company’s analysis toward more RNG investments as posited

⁴⁶³ CUB/100, Jenks/27.

⁴⁶⁴ CUB/100, Jenks/23.

⁴⁶⁵ CUB/100, Jenks/23-24.

⁴⁶⁶ NW Natural/3600, Kravitz-Griffiths/16.

⁴⁶⁷ NW Natural/3600, Kravitz-Griffiths/18.

1 by CUB.⁴⁶⁸ If NW Natural is able to use a deferral between an RNG project’s in-service
2 date and the rate effective date, it will simply ensure that RNG projects are fairly analyzed,
3 and provide the Company with an opportunity to recover its prudently incurred costs while
4 seeking to acquire adequate amounts of RNG in response to State decarbonization
5 policies.⁴⁶⁹

6 d. If the Commission declines to adopt a deferral, the Commission
7 should allow for more flexible timing for the RNG AAC filing.

8 Finally, CUB opposes the Company’s proposal to allow for a flexible filing date for
9 RNG AAC filings. CUB argues that this issue was litigated in docket UG 435 and that
10 there is “no compelling reason to change what has already been agreed to.”⁴⁷⁰ CUB
11 argues that expanding the date would “place an unnecessary burden on the Commission
12 and Commission stakeholders.”⁴⁷¹

13 The Company continues to support a flexible filing date in Schedule 198 in the
14 alternative to a deferral, as this change would address the Company’s concerns.
15 However, the Company has demonstrated compelling reasons such as providing the
16 Company the opportunity to recover costs associated with meeting the State’s
17 decarbonization goals. The Company appreciates that a flexible filing date may require
18 additional Commission resources and potentially create incremental rate changes
19 throughout any given year. As such, the Company continues to believe a deferral is
20 preferable to a flexible filing date for new RNG projects.

⁴⁶⁸ NW Natural/3600, Kravitz-Griffiths/18.

⁴⁶⁹ NW Natural/3600, Kravitz-Griffiths/18-19.

⁴⁷⁰ CUB/100, Jenks/28.

⁴⁷¹ CUB/100, Jenks/28.

1 3. *The current earnings test inadvertently creates a disincentive to producing*
2 *more RNG than forecasted, even when it is cost-effective and for the benefit*
3 *of customers.*

4 Schedule 198 was designed to permit the Company the opportunity to recover
5 prudently incurred costs associated with RNG investments.⁴⁷² Under Schedule 198, NW
6 Natural forecasts the revenue requirement of its RNG investments for the coming year,
7 beginning on November 1, and then these forecasted costs are compared to actual costs
8 incurred at the end of the year.⁴⁷³ Any difference in costs—positive or negative—is
9 recovered through a true-up mechanism in Schedule 198 subject to an earnings test.⁴⁷⁴
10 The earnings test sets a deadband at 50 basis points below and 50 basis points above
11 the authorized ROE.⁴⁷⁵ If NW Natural’s ROE is within this deadband, there is no trueing-
12 up in order to recover actual costs incurred. Rather, NW Natural recovers only its
13 forecasted costs for the year.⁴⁷⁶

14 The issue with the Schedule 198 earnings test deadbands is that they prevent NW
15 Natural from recovering higher-than-forecasted costs associated with increased RNG
16 production, even though this increased production causes per-unit costs to decline.⁴⁷⁷
17 For example, higher-than-forecasted production increases the overall costs that NW
18 Natural must pay to the producer of raw biogas (e.g., the landfill or the meat processing
19 plant), although per-unit costs are declining due to greater production.⁴⁷⁸ Due to the
20 deadbands in the Schedule 198 earnings test, however, NW Natural would not be able to

⁴⁷² NW Natural/1717, Walker/27-28.

⁴⁷³ NW Natural/1500, Kravitz-Chittum/18.

⁴⁷⁴ NW Natural/1500, Kravitz-Chittum/18.

⁴⁷⁵ NW Natural/1500, Kravitz-Chittum/18.

⁴⁷⁶ NW Natural/1500, Kravitz-Chittum/18.

⁴⁷⁷ NW Natural/4700, Kravitz-Griffiths/2.

⁴⁷⁸ NW Natural/1500, Kravitz-Chittum/18.

1 recover this increase in overall costs, even though the decline in per-unit cost benefits
2 customers.

3 As a practical matter, this problem only exists for on-system RNG projects, not the
4 off-system RNG projects that currently comprise NW Natural's RNG investment
5 portfolio.⁴⁷⁹ This distinction between off-system and on-system resources is due to how
6 the physical gas is utilized. For off-system projects, NW Natural sells the physical gas
7 each project produces to a third party, which offsets the higher-than-forecasted increase
8 in overall costs, while retaining the environmental attributes for SB 98 and compliance
9 with future Oregon GHG regulations.⁴⁸⁰ For on-system projects, however, NW Natural
10 will not sell the physical gas to third parties, but rather use it to serve its retail load,
11 eliminating that source of revenue, and creating the issue where higher-than-forecasted
12 RNG production increases the project's overall revenue requirement, even though per-
13 unit costs decline.⁴⁸¹ In such cases, the earnings test deadbands will prevent the
14 Company from recovering the additional revenue requirement that was not included in its
15 forecast even when the project is performing better than expected.⁴⁸² And, unlike off-
16 system RNG projects, there is not an additional source of revenue (i.e., the marketing of
17 physical gas to a third party) to make up the difference between forecast and actual cost.

18 The Company expects this situation to occur as it pursues significant on-system
19 RNG projects to meet future State decarbonization requirements and therefore has
20 proposed this change to the earnings test that will remove any disincentive that exists

⁴⁷⁹ NW Natural/4700, Kravitz-Griffiths/2-3.

⁴⁸⁰ NW Natural/4700, Kravitz-Griffiths/2-3.

⁴⁸¹ NW Natural/4700, Kravitz-Griffiths/2-3.

⁴⁸² NW Natural/1500, Kravitz-Chittum/14-15.

1 through operation of the deadbands.⁴⁸³ Despite this, Staff and CUB oppose changes to
2 the earnings test, arguing that there is little benefit to the Company by removing the
3 deadbands. CUB additionally argues that without leaving the earnings test as is, the
4 Company will have no incentive to control costs related to RNG projects.⁴⁸⁴

5 Although Staff acknowledges that the earnings test may put the Company “in a
6 regulatory bind that should be avoided,”⁴⁸⁵ Staff recommends against changing the
7 earnings test because it finds that “the changes in costs due to RNG volumes at the
8 Company’s current projects are small.”⁴⁸⁶ As such, Staff maintains that the earnings test
9 does not create a *current* problem the Company is facing.⁴⁸⁷ Although it is true that this
10 change would have little effect on the revenue requirement for off-system projects, such
11 analysis ignores the Company’s increasing need for RNG to meet future State GHG
12 emissions reduction requirements. To meet these requirements, NW Natural is likely to
13 pursue on-system RNG projects where it will not sell the physical gas to any third party
14 and instead will keep that gas on its system, which, as explained above, will eliminate the
15 offsetting revenue present in the Company’s ongoing RNG projects.⁴⁸⁸ Thus, eliminating
16 the deadbands in the earnings test in Schedule 198 is a prudent step looking ahead to
17 future RNG acquisitions, and will permit the Company to recover the incremental costs
18 that it *will* incur when it increases production of RNG through on-system projects to
19 maximize benefits for customers.⁴⁸⁹

⁴⁸³ NW Natural/1500, Kravitz-Chittum/14-15, 18-20; NW Natural/3600, Kravitz-Griffiths/22.

⁴⁸⁴ CUB/100, Jenks/29.

⁴⁸⁵ Staff/900, Dlouhy/19.

⁴⁸⁶ Staff/3200, Dlouhy/12.

⁴⁸⁷ Staff/3200, Dlouhy/13.

⁴⁸⁸ NW Natural/3600, Kravitz-Griffiths/22.

⁴⁸⁹ NW Natural/3600, Kravitz-Griffiths/23-24.

1 CUB echoes Staff’s skepticism, arguing that the Company provided no “economic
2 analysis showing a material change in shareholder profits” affected by the earnings
3 test.⁴⁹⁰ CUB similarly recommends against adopting the Company’s proposed changes
4 to the earnings test as it worries that without the deadbands, the Company “loses an
5 important incentive to control costs.”⁴⁹¹ Although CUB acknowledges that RNG
6 production costs that outpace the Company’s forecast result in better per-unit costs, CUB
7 argues that changing the earnings test will “make the cost recovery mechanism
8 unbalanced.”⁴⁹²

9 As CUB indicates, the current earnings test provides some incentive to control
10 costs but produces more incentive to keep costs at forecasted level.⁴⁹³ The Commission
11 noted this potential in Order No. 22-388, when it stated it retained “some concern that the
12 deadband above authorized ROE could create an incentive for the company to over-
13 forecast the costs of RNG.”⁴⁹⁴ As the Commission indicated, the earnings test is on the
14 one hand, overly generous, allowing the Company to recover up to its forecast even when
15 it is 50 basis points over ROE, but on the other hand, it is overly punitive in cases where
16 the additional investment increases RNG production and benefits customers.⁴⁹⁵ The
17 Commission should eliminate this imbalance by eliminating the deadbands entirely.

18 The Company’s proposal removes the deadband above the authorized ROE;
19 therefore, the Company will still maintain significant incentive to control costs but without

⁴⁹⁰ CUB/100, Jenks/30.

⁴⁹¹ CUB/100, Jenks/29.

⁴⁹² CUB/100, Jenks/29.

⁴⁹³ NW Natural/1500, Kravitz-Chittum/19.

⁴⁹⁴ Order No. 23-388 at 84.

⁴⁹⁵ NW Natural/4700, Kravitz-Griffiths/3.

1 the offsetting incentive to over-forecast. Removing the deadband below the authorized
2 ROE is a symmetrical change that will allow the Company to recover incremental costs
3 for RNG projects the current earnings test would prevent. As a result, the proposed
4 change to the earnings test preserves the existing incentives to control costs but expands
5 the Company's ability to achieve cheaper per-unit RNG, which benefits both the Company
6 and its customers.

7 The Company urges the Commission to adopt the Company's proposed changes
8 to Schedule 198.

9 **E. Oregon Low-Income Energy Efficiency Program**

10 The Coalition argues that the funding from the Company's OLIEE program, which
11 is collected from natural gas customers, should be used to fund electrification. NW Natural
12 opposes the Coalition's proposal for the following reasons. *First*, it is not clear the
13 Commission has the authority to direct the Company to use customer funds for
14 electrification, and even assuming for the sake of argument that it did, it is bad policy to
15 use customer funds to remove customers from the system and would harm the
16 Company's existing customers. *Second*, in addition to legal and policy concerns, the
17 proposal is unreasonable considering the additional sources of funding that are available
18 at this time for electrification that would not require the use of funding from natural gas
19 customers. *Third*, the Coalition's arguments concerning rising costs of the gas system as
20 a justification for their proposal are unsupported. *Fourth*, the Coalition incorrectly
21 conflates electrification and decarbonization, and ignores the Company's commitment to
22 pathways for decarbonization on its system and the energy efficiency benefits achieved
23 through the OLIEE program.

1 1. *Background regarding the OLIEE program.*

2 The Company’s OLIEE program provides funds to income-eligible residential
3 households to finance weatherization projects, high-efficiency gas equipment and energy
4 literacy services.⁴⁹⁶ OLIEE is funded by NW Natural’s customers through a designated
5 portion of the public purposes funding surcharge authorized by Schedule 320.⁴⁹⁷
6 Schedule 320 specifically earmarks OLIEE funds for natural gas customers who qualify
7 as low income, defined as less than 200 percent of the federal poverty line.⁴⁹⁸ To disburse
8 funding, the Company works with Community Action Partner (“CAP”) Agencies and
9 approved service providers that evaluate customers’ homes to determine whether those
10 customers qualify for a weatherization project.⁴⁹⁹ Once a CAP Agency identifies OLIEE
11 program recipients and the projects are completed, the CAP Agency monitors the project
12 and provides NW Natural the information necessary to receive reimbursement from the
13 Company.⁵⁰⁰ The OLIEE program is authorized through ORS 757.315(3),⁵⁰¹ which allows
14 the Commission to

15 authorize a natural gas public utility, upon application of the utility, to include
16 in rates for residential customers of the utility amounts for the purpose of
17 generating funds to be used for bill payment assistance to low-income
18 residential customers of the utility.

19 The public purpose charge has been authorized to fund bill payment assistance and
20 energy efficiency activities for income-eligible customers through the OLIEE program.⁵⁰²

⁴⁹⁶ NW Natural/200, Tanaka/24.

⁴⁹⁷ NW Natural/200, Tanaka/24.

⁴⁹⁸ NW Natural/200, Tanaka/24-25.

⁴⁹⁹ NW Natural/200, Tanaka/25.

⁵⁰⁰ NW Natural/2300, Tanaka/39.

⁵⁰¹ NW Natural/4500, Tanaka/8.

⁵⁰² NW Natural/4500, Tanaka/9.

1 2. *Response to the Coalition’s arguments.*

2 The Coalition seeks to change the Company’s OLIEE program tariff, specifically to
3 expand the program to allow recipients to use funds to install electric appliances instead
4 of gas appliances.⁵⁰³ The Coalition argues this change will “promote[] energy equity,”
5 based on the premise that low-income customers will achieve cost-savings through
6 energy efficient electric space and water heaters that could “reduce their need for energy
7 assistance.”⁵⁰⁴ The Coalition maintains that customers will save more using energy
8 efficient electric appliances than if they continue to use natural gas for the life-cycle of a
9 new gas appliance.⁵⁰⁵ The Coalition also argues that natural gas prices will continue to
10 rise as higher-income households begin to electrify and leave stranded assets on the gas
11 system, the cost of which low-income customers will bear.⁵⁰⁶ The Coalition further argues
12 that this change to the OLIEE program could substantially reduce GHG emissions.⁵⁰⁷
13 However, as discussed below, the Coalition’s arguments are without merit and should be
14 rejected.

15 ***First***, it is entirely inappropriate to suggest that OLIEE program funds that are
16 collected from natural gas customers should be used to remove natural gas customers
17 from the system. NW Natural questions whether the Commission has the authority to
18 divert natural gas customer funds for such a purpose, and further observes that the record
19 in this case does not support such a proposal. While NW Natural does not find the
20 Coalition’s speculation about future attrition and potential for stranded assets is at all

⁵⁰³ Coalition/600, Daryanani-Fain/5.

⁵⁰⁴ Coalition/300, Fain-Segovia Rodriguez-Daryanani/43-44.

⁵⁰⁵ Coalition/300, Fain-Segovia Rodriguez-Daryanani/43-45.

⁵⁰⁶ Coalition/300, Fain-Segovia Rodriguez-Daryanani/44.

⁵⁰⁷ Coalition/300, Fain-Segovia Rodriguez-Daryanani/36.

1 supported by the record in this case, to the extent it is a concern seriously held by the
2 Coalition, it cannot be squared with the fact that their recommendation to use OLIEE
3 program funds for electrification would actually tend to make that speculative scenario
4 more likely and would harm the Company’s existing customers.⁵⁰⁸ It is entirely
5 unreasonable to increase costs to natural gas customers to fund electrification while also
6 facing higher rates as the costs of this effort are spread over a smaller customer base as
7 a result of the customer defection.

8 Further, there is no Oregon law that requires the use of natural gas customer
9 dollars for electrification efforts, and considering the customer harm that could result from
10 the proposal, NW Natural does not believe the Commission has the authority to direct it
11 to do so. In Colorado, for example, the Colorado Public Utilities Commission considered
12 this issue and reached the same conclusion, rejecting intervenor recommendations to
13 require a natural gas utility to offer customer incentives for electrification, which in that
14 case, were proposed to address state emissions reduction targets.⁵⁰⁹ The Colorado
15 Public Utilities Commission reasoned that while Colorado had adopted state GHG
16 emissions reductions goals, the Colorado legislature had not explicitly required natural
17 gas utilities to fund electrification.⁵¹⁰ It also concluded that such requirement “could
18 negatively impact [the utility’s] existing customers” as its customers would “bear the brunt

⁵⁰⁸ NW Natural/4500, Tanaka/12 (“The Coalition’s proposal to use the OLIEE program funding to electrify customers would be a detriment to the Company’s existing customers. It would remove customers from the system, creating a smaller pool of customers contributing to fixed charges on the system, and driving upward rate pressure.”).

⁵⁰⁹ *In re Atmos Energy Corporation’s Application to Open Demand-Side Management Strategic Issues Proceeding*, Proceeding No. 23A-0216G, Recommended Decision No. R24-0016 at 17 (Colo. Pub. Util. Comm., Jan. 9, 2024) (available at https://www.dora.state.co.us/pls/efi/efi_p2_v2_demo.show_document?p_dms_document_id=1013659&p_session_id=) (upheld by Colorado Public Utilities Commission in Proceeding No. 23A-0216G, Decision No. C24-0108 (Feb. 14, 2024)).

⁵¹⁰ Decision No. R24-0016 at 17.

1 of that increased [rate] expense with higher gas utility bills.”⁵¹¹ While this decision is not
2 precedential for this Commission, it provides context for how another state has
3 considered a similar situation and acknowledged the detriment to natural gas customers
4 that their funding electrification would cause. As the Company has demonstrated, its
5 customers would not benefit from adopting the Coalition’s recommendation to require
6 OLIEE program funds to promote electrification efforts.

7 The purpose of the OLIEE program is to promote energy equity, energy
8 affordability and health outcomes for income-eligible customers through energy efficiency
9 upgrades, and the program was recently updated to increase funding explicitly for Health,
10 Safety and Repair measures.⁵¹² The OLIEE program’s Health, Safety and Repair
11 measures are items that, if not completed, would adversely impact the safety and health
12 of the occupants or the effectiveness of the energy efficiency measures; and can include
13 piping relocation, repairs to walls and/or windows, mold abatement, lead paint abatement,
14 and ventilation fans for equipment and spaces such as bathroom fans.⁵¹³ The Company
15 seeks to administer the OLIEE program consistent with its existing purpose, which will
16 provide upgrades for high-efficiency natural gas appliances alongside additional
17 measures to improve the health and safety of low-income communities.

18 **Second**, based on the various sources of funding available, it makes little practical
19 sense to divert funds that are dedicated for low-income customers to obtain high-
20 efficiency natural gas appliances. As the Coalition noted in response to Data Request

⁵¹¹ Decision No. R24-0016 at 17.

⁵¹² NW Natural/4500, Tanaka/11-12.

⁵¹³ NW Natural/4500, Tanaka/12.

1 No. 33,⁵¹⁴ there are various other sources of funding available for installation of electric
2 heat pumps and other electrification measures:

- 3 1. Energy Star Program;
- 4 2. The federal government’s High-Efficiency Electric Home Rebate
5 Program;
- 6 3. The State of Oregon’s Heat Pump Incentive Program;
- 7 4. The Energy Trust of Oregon rebates for heat pumps;
- 8 5. The City of Portland;
- 9 6. Oregon’s Department of Energy; and
- 10 7. Tax credits through the Inflation Reduction Act.

11 As such, the Coalition is asking the Commission to fill a gap in funding that does
12 not exist—and also thereby reducing a more limited funding pool for low-income natural
13 gas customers. Critically, as currently structured, the OLIEE program provides a much-
14 needed option for these customers to obtain new appliances to use on the natural gas
15 system.⁵¹⁵

16 **Third**, the Coalition’s arguments regarding the future cost of natural gas service
17 are unsupported. While the Coalition argues that customers will save more money by
18 using high efficiency electric appliances, the U.S. Department of Energy reported in 2022
19 that natural gas is 3.4 times more affordable than electricity and significantly more
20 affordable than several other residential energy sources for the same amount of energy
21 delivered.⁵¹⁶ January 2024 data show that natural gas heat costs in Oregon are roughly

⁵¹⁴ NW Natural/4501, Tanaka/1-3.

⁵¹⁵ NW Natural/4500, Tanaka/11.

⁵¹⁶ NW Natural/2300, Tanaka/46 (citing U.S. Dept. of Energy, 87 Fed. Reg. 12681, Table 1 (Mar. 2, 2022)).

1 40 percent of the price of electric heat, on a per unit heat basis.⁵¹⁷ Therefore, it is
2 reasonable to conclude that OLIEE program recipients will achieve cost savings with new,
3 energy-efficient gas appliances and that their energy burden will be lowered. Although
4 the Coalition praises electricity as the most efficient energy source, this is not the case,
5 as in 2023, 38 percent of Oregon’s total net generation of electricity was provided by
6 natural gas fired power plants.⁵¹⁸ Moreover, during the process of burning gas to generate
7 electricity, more than half of the heat energy in the fuel is lost, a far more inefficient
8 process than direct gas use.⁵¹⁹

9 **Finally**, the Coalition incorrectly conflates electrification with decarbonization. To
10 the contrary, removing natural gas appliances and installing electric appliances is not
11 itself decarbonization—it is fuel-switching.⁵²⁰ As the Company explained in testimony,
12 natural gas is essential to ensure the reliability of the electric grid and will be for the
13 foreseeable future, as electric utilities heavily rely on natural gas use for power generation
14 and certain Oregon utilities are extending the lives of their coal generation fleets or
15 converting them to natural gas.⁵²¹

16 While the Coalition accuses the Company of being indifferent to the GHG
17 emissions reductions that could be achieved if it funded electrification efforts, the
18 Company has shown throughout this rate case its dedication to decarbonizing its system.
19 As the Company explained in testimony, it remains committed to decarbonization

⁵¹⁷ NW Natural/2300, Tanaka/46.

⁵¹⁸ NW Natural/2300, Tanaka/46.

(available at <https://www.eia.gov/state/analysis.php?sid=OR#:~:text=Natural%20gas%20fuels%20the%20second,the%20state's%20total%20net%20generation>).

⁵¹⁹ NW Natural/2300, Tanaka/46-47.

⁵²⁰ NW Natural/2200, Kravitz/15-16; NW Natural/4500, Tanaka/9.

⁵²¹ NW Natural/2200, Kravitz/15; NW Natural/2202, Kravitz/14-15.

1 pathways including cost-effective energy efficiency, decarbonized fuels, and solutions
2 that leverage the strengths of both the natural gas and the electric systems, such as
3 hybrid heating and ground source heat pumps.⁵²² The Coalition ignores the fact the
4 OLIEE program funds go to weatherize low income households and upgrade appliances
5 to ensure these customers have efficient and reliable energy, reducing the total terms a
6 customer will use and reducing their emissions without changing their lifestyle.⁵²³ For the
7 foregoing reasons, the Commission should reject the Coalition’s proposed modifications
8 to the OLIEE program.

9 **F. Lobbying / Political Activities**

10 The Commission should allow NW Natural to recover the Government Affairs team
11 budget of \$1,725,922, taking into account Staff’s recommended Oregon-allocated
12 adjustment of \$11,572,⁵²⁴ which the Company does not oppose—totaling \$1,714,350.⁵²⁵
13 This amount accurately reflects the costs for the Government Affairs team’s time spent
14 engaging in core utility functions, which are appropriately recoverable, and also reflects
15 the Company’s removal of \$625,160 of exception time reported in the Base Year for which
16 the Company has not sought recovery in this case.⁵²⁶ In addition to Staff’s recommended
17 adjustment, the Company further agrees to Staff’s proposal to clarify the Company’s
18 “Time Charging Procedures – Political Activities” (“General Procedure”) as discussed in
19 more detail below.⁵²⁷

⁵²² NW Natural/2200, Kravitz/11-12.

⁵²³ NW Natural/2300, Tanaka/44-45.

⁵²⁴ After reviewing NW Natural’s testimony and responses to date requests, Staff recommended an adjustment of \$11,572 for the Test Year in order exclude “104 lobbying transactions” recorded to cost elements titled “Meals and Entertainment” and “Business Travel.” Staff/1700, Rossow/4.

⁵²⁵ NW Natural/3300, Williams/6.

⁵²⁶ NW Natural/3300, Williams/7.

⁵²⁷ Staff/4000, Rossow/5.

1 The Commission should reject the Coalition’s two proposals: (1) to disallow the
2 entirety of NW Natural’s Government Affairs expense for the Test Year, and (2) to require
3 the Government Affairs team to track and report time for its core utility activities.

4 *First*, the Coalition argues that the Commission should disallow the entirety of NW
5 Natural’s Government Affairs team budget because the Company’s General Procedure
6 is too narrow and does not include all political activities as defined 18 CFR § 367.4264
7 and because the Company’s time tracking fails to provide the detailed reporting of political
8 activities as directed by the Commission in Order No. 22-388.⁵²⁸ As discussed in more
9 detail below, the Coalition’s arguments are without merit as the General Procedure
10 properly guides employees in identifying political activities consistent with the definition
11 of such activities in 18 CFR § 367.4264 and the Company’s tracking of exception time
12 provides the appropriate level of detail for the Commission and intervenors to review the
13 exception time entries in compliance with Order No. 22-388. Moreover, the Coalition’s
14 recommendation is punitive, and should be rejected as it is inconsistent with the
15 Commission’s recognition in Order No. 22-388 that the Government Affairs team also
16 engages in routine communications regarding core utility activities that are not lobbying
17 and that are appropriate for cost recovery from customers.⁵²⁹

18 *Second*, the Commission should also reject the Coalition’s proposal that NW
19 Natural track and report time for the Government Affairs team’s core utility activities—
20 which the Coalition is proposing *in addition* to the Company’s exception time tracking for
21 political activities.⁵³⁰ The Coalition’s proposal far exceeds the direction provided to

⁵²⁸ Coalition/500, Apter-Connolly/39-40; Coalition/200, Apter-Connolly/62, 68-69.

⁵²⁹ NW Natural/4600, Williams/10; NW Natural/3300, Williams/26-27.

⁵³⁰ Coalition/500, Apter-Connolly/30; Coalition/200, Apter-Connolly/67-68.

1 NW Natural in Order No. 22-388, is unsupported by the record in this case, and to
2 NW Natural’s knowledge, no other Oregon utility engages in such “positive” time
3 reporting.⁵³¹

4 1. *Background regarding Commission Order No. 22-388, 18 CFR § 367.4264,*
5 *and the Company’s General Procedure.*

6 In docket UG 435, the Coalition objected to a portion of a settlement agreement in
7 that case addressing the Company’s Government Affairs expense.⁵³² In Order No. 22-
8 388 (docket UG 435), the Commission recognized that the Government Affairs
9 department engages in a mix of activities that include both political and core utility
10 activities, and indicated that, “[g]oing forward, we expect NW Natural to provide detailed
11 expense information that clearly categorizes its [political] activity.”⁵³³ The Commission
12 specifically noted that:

13 NW Natural should be clear whether it is engaging, for example, primarily
14 in an informational capacity in response to local government requests for
15 assistance in developing and meeting climate policies, versus engaging
16 with local governments with an intention to advocate against particular
17 policies and develop support for others.⁵³⁴

18 While the Commission did not define political activity or lobbying in Order No. 22-388, it
19 found that the Commission’s precedent that “utilities are not permitted to recover
20 expenses associated with political lobbying” is “similar to [the Federal Energy Regulatory
21 Commission’s (“FERC”)] regulations prohibiting political activities and lobbying,”⁵³⁵ i.e.,
22 18 CFR § 367.4264.

⁵³¹ NW Natural/4600, Williams/14; NW Natural/3300, Williams/17-18.

⁵³² See Order No. 22-388 at 14-16.

⁵³³ Order No. 22-388 at 23.

⁵³⁴ Order No. 22-388 at 23.

⁵³⁵ NW Natural/3300, Williams/3-4 (referencing Order No. 22-388 at 22 & n.70).

1 Under 18 CFR § 367.4264, FERC Account 426.4, which is the designated FERC
2 account for lobbying expenses, must include expenditures for the purpose of influencing
3 public opinion with respect to the election or appointment of public officials, referenda,
4 legislation, or ordinances, or for the purpose of influencing the decisions of public
5 officials.⁵³⁶ Importantly, however, FERC Account 426.4 “must not include expenditures
6 that are directly related to appearances before regulatory or other governmental bodies
7 in connection with an associate utility company’s existing or proposed operations.”⁵³⁷

8 Based on the Commission’s directive in Order No. 22-388 and using 18 CFR
9 § 367.4264 as guidance,⁵³⁸ NW Natural developed the General Procedure, which
10 contains the Company’s policies and procedures for exception time tracking of political
11 activities, or activities intended to influence a legislative body or any governmental official
12 or employee who may participate in the formulation of legislation, through exception time
13 reporting.⁵³⁹ Effective January 1, 2023, NW Natural’s employees have been entering
14 exception time into the Company’s time tracking system, called “WorkForce,” for time
15 spent each working day on such political activities.⁵⁴⁰ The Company’s employees have
16 been trained on use of the General Procedure, which provides detailed instructions for
17 exception time reporting of political activities.⁵⁴¹ Exception time is reported in half-hour

⁵³⁶ 18 CFR § 367.4264(a) (“This account must include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials.”).

⁵³⁷ 18 CFR § 367.4264(b).

⁵³⁸ NW Natural/3300, Williams/4.

⁵³⁹ NW Natural/3300, Williams/4-5.

⁵⁴⁰ NW Natural/3300, Williams/5.

⁵⁴¹ NW Natural/3300, Williams/5.

1 increments daily, in the cost center identified in the General Procedure.⁵⁴² In addition, the
2 General Procedure provides illustrative examples for use in exception time reporting and
3 step-by-step screen shots of the “WorkForce” time entry system.⁵⁴³ Accordingly, NW
4 Natural has followed the Commission’s direction in Order No. 22-388 and developed and
5 implemented a policy using 18 CFR § 367.4264 as guidance to track when the Company
6 engages in political activities.

7 2. *The General Procedure properly guides employees in identifying political*
8 *activities for exception time reporting.*

9 The General Procedure properly guides NW Natural employees in identifying
10 lobbying communications, which are communications with the intent to influence the
11 decisions of any member or employee of a legislative body⁵⁴⁴ **or** any governmental official
12 or employee who may participate in the formulation of legislation.⁵⁴⁵ Per NW Natural’s
13 policy, lobbying communications are not limited to legislative matters, but also include
14 communications intended to influence the general public, or any segment, with respect to
15 elections or initiatives/referendums.⁵⁴⁶ A lobbying communication must include an *intent*
16 *to influence* and does not include communications intended to educate or inform, unless

⁵⁴² NW Natural/3300, Williams/5.

⁵⁴³ NW Natural/3300, Williams/5.

⁵⁴⁴ A “legislative body” is a congress, tribal government, federal or state legislature, local council or public initiative process to put a measure on a ballot. A legislative body is not a judicial, executive or administrative body (e.g., Department of Environmental Quality, Department of Energy, Treasury, school boards, housing authorities, sewer and water districts, zoning boards), whether elected or appointed. NW Natural/1200, Williams/4.

⁵⁴⁵ A “lobbying communication” is any communication with any member or employee of a legislative body, or with any governmental official or employee who may participate in the formulation of legislation. A lobbying communication includes communications intended to influence the general public, or any segment, with respect to elections, legislation, or initiatives/referendums. This includes attempts to urge or encourage the public to contact members of a legislative body for the purpose of proposing, supporting or opposing legislation. NW Natural/1200, Williams/4.

⁵⁴⁶ NW Natural/1200, Williams/4.

1 that communication also includes support or opposition.⁵⁴⁷ Importantly, the General
2 Procedure’s definitions and guidelines are consistent with 18 CFR § 367.4264 and Order
3 No. 22-388, and properly do not apply to communications related to appearances before
4 regulatory or other governmental bodies in connection with the Company’s existing or
5 proposed operations.⁵⁴⁸

6 a. The General Procedure’s definition of lobbying communications is
7 consistent with 18 CFR § 367.4264 and Order No. 22-388.

8 The Coalition argues that NW Natural’s policy for distinguishing exception time in
9 the General Procedure is too narrow and does not include all political activities as defined
10 in 18 CFR § 367.4264.⁵⁴⁹ In particular, the Coalition seems to suggest that
11 18 CFR § 367.4264(a) requires that the General Procedure include as lobbying
12 communications *all* communications intended to influence the decisions of public officials,
13 and that NW Natural’s policy only applies to legislative bodies and legislative matters.⁵⁵⁰
14 The Coalition’s argument is incorrect for several reasons.

15 First, the General Procedure’s definition of a “lobbying communication” not only
16 applies to efforts to influence the decisions of legislative bodies, but also those
17 communications intended to influence the decisions of any governmental official or
18 employee who may participate in the formulation of legislation.⁵⁵¹ Second, the General
19 Procedure is not limited to legislative matters; rather, the definition of a “lobbying
20 communication” also includes communications intended to influence the general public,

⁵⁴⁷ NW Natural/1200, Williams/4.

⁵⁴⁸ 18 CFR § 367.4264(b).

⁵⁴⁹ Coalition/500, Apter-Connolly/31; Coalition/200, Apter-Connolly/68-69.

⁵⁵⁰ Coalition/200, Apter-Connolly/67-69.

⁵⁵¹ NW Natural/4600, Williams/7, 12; NW Natural/3300, Williams/12.

1 or any segment, with respect to elections or initiatives/referendums.⁵⁵² As such, the
2 General Procedure governs activities highlighted by the Commission in Order No. 22-
3 388, including “efforts to influence city or county officials, such as the communications
4 with Multnomah County officials and the communications with Milwaukie city
5 councilors”⁵⁵³ and “engaging with municipalities or other jurisdictions regarding topics
6 such as local climate change initiatives.”⁵⁵⁴

7 Under the General Procedure, communications intended to influence the decisions
8 of a judicial, executive, or administrative body are not lobbying *per se*.⁵⁵⁵ This is consistent
9 with 18 CFR § 367.4264(b) and the fact that a heavily regulated utility like NW Natural
10 must regularly participate in proceedings and present a position before a decisionmaker
11 of a judicial, executive, or administrative body in a regulatory capacity, as an applicant,
12 or in defending its operational actions before an adjudicator. Actions that may require the
13 utility to take a position, but do not constitute lobbying, include but are not limited to
14 providing reports required by regulation, rulemakings, adjudications, permit applications,
15 or any such matter where the Company had to appear and make a showing before a
16 decision-maker concerning its existing or proposed operations.⁵⁵⁶

17 While Commission Staff seems to generally agree with the Company’s
18 categorization of lobbying under the General Procedure, Staff requests that NW Natural
19 modify the General Procedure “to provide an improved level of transparency when NW
20 Natural is engaging in lobbying activities with local governments, government officials and

⁵⁵² NW Natural/4600, Williams/7-8; NW Natural/1200, Williams/4.

⁵⁵³ NW Natural/3300, Williams/13 (citing Order No. 22-388 at 22).

⁵⁵⁴ NW Natural/3300, Williams/13 (citing Order No. 22-388 at 23).

⁵⁵⁵ NW Natural/3300, Williams/13.

⁵⁵⁶ NW Natural/4600, Williams/6-7.

1 State Agencies that are political, informational, or educational.”⁵⁵⁷ In particular, Staff
2 recommends clarifications to the General Procedure such that it would explicitly apply to
3 a judicial, executive, or administrative body under certain circumstances.⁵⁵⁸ NW Natural
4 initially opposed Staff’s recommendation as the Company interpreted the proposed
5 change to cover communications regarding the Company’s existing and proposed
6 operations under 18 CFR § 367.4264(b).⁵⁵⁹ After further discussions, Staff amended its
7 response to NW Natural Data Request No. 33, and clarified that it recommended that the
8 General Procedure make clear that it applies to engagement with government officials or
9 representatives of the government officials—including judicial, executive, Department of
10 Environmental Quality, Department of Energy, Treasury, school boards, housing
11 authorities, sewer and water districts, and zoning boards, whether elected or appointed—
12 “regarding a change to a state statute, City Code or County Code or the appointment of
13 a new state or local government official.”⁵⁶⁰ Staff does not intend for this recommended
14 change to the General Procedure to apply to regulatory activities.⁵⁶¹ NW Natural does not
15 oppose Staff’s proposed change to the General Procedure as clarified because the
16 Company already interprets the General Procedure as such,⁵⁶² and the Company will
17 update the General Procedure accordingly for transparency.

⁵⁵⁷ NW Natural/5100 (Staff Second Amended Response to NW Natural Data Request No. 33).

⁵⁵⁸ Staff/4000, Rossow/5.

⁵⁵⁹ NW Natural/4600, Williams/5-6.

⁵⁶⁰ NW Natural/5100.

⁵⁶¹ NW Natural/5100.

⁵⁶² NW Natural/4600, Williams/9 (“Moreover, to Staff’s specific concern about lobbying that may occur with local government officials as articulated in its response to the Company’s DR 33, such communications are clearly already addressed in the General Procedure and are the subject of exception time reporting. Applying the General Procedure, the Company has captured as exception time lobbying communications with local governments. In other words, the General Procedure is functioning as directed by the Commission in Order No. 22-388...”).

1 For the reasons above, the General Procedure complies with Order No. 22-388
2 and reflects the guidance in 18 CFR § 367.4264, and appropriately identifies lobbying
3 communications subject to exception time tracking.

4 b. Informational communications with public officials do not constitute
5 lobbying.

6 The Coalition also seems to imply that informational communications with public
7 officials constitute lobbying if NW Natural is not responding to an inquiry.⁵⁶³ The
8 Coalition’s argument is again inconsistent with the Commission’s policy in Order No. 22-
9 388. The Commission found that engaging “*primarily* in an informational capacity in
10 response to local government requests for assistance in developing and meeting climate
11 policies” was core utility work separate and distinct from political activity/lobbying.⁵⁶⁴ The
12 Commission also *did not find* that anything other than “responding” to public officials was
13 lobbying. Indeed, the Commission agreed with NW Natural that “communications
14 intended purely to ensure that public officials are receiving routine information about the
15 company and the gas system do not qualify as lobbying expenses.”⁵⁶⁵

16 Education about core utility functions can happen in a variety of different ways.
17 First, an employee can be asked a question by a legislator or public official and provide
18 a response.⁵⁶⁶ However, in some cases, that education happens proactively or is required
19 by law.⁵⁶⁷ For example, where the Company is aware that misinformation and/or incorrect
20 data has been provided to legislators or public officials by a third-party, it is the Company’s

⁵⁶³ Coalition/500, Apter-Connolly/31-32; Coalition/200, Apter-Connolly/67.

⁵⁶⁴ NW Natural/3300, Williams/15-16 (citing Order No. 22-388 at 23 (emphasis added)).

⁵⁶⁵ NW Natural/3300, Williams/16 (citing Order No. 22-388 at 23).

⁵⁶⁶ NW Natural/4600, Williams/19.

⁵⁶⁷ NW Natural/4600, Williams/19.

1 obligation as a regulated entity to provide accurate information about its operations.⁵⁶⁸ In
2 addition, the Company may be required by law to provide certain information to legislators
3 or public officials although no specific “request” has been made.⁵⁶⁹ The fact that a
4 communication is proactive versus reactive does not, in and of itself, make the
5 communication a political activity.⁵⁷⁰ The Coalition’s attempts to broaden the definition of
6 political activities is misplaced and ignores the Commission’s recognition that
7 informational communications about the utility’s operations do not constitute lobbying;
8 accordingly, the Coalition’s arguments should be rejected.

9 c. Recoverable communications with public officials are not limited to
10 those that are required to provide safe and adequate service to
11 customers.

12 The Coalition seems to suggest that recoverable communications with public
13 officials should be further narrowed to only those communications that are “required to
14 provide safe and adequate service to customers.”⁵⁷¹ This narrow interpretation of
15 recoverable expenses not only conflicts with 18 CFR § 367.4264 and Order No. 22-388,
16 but also Staff’s review of the Company’s exception time reporting in this case.⁵⁷² As
17 discussed above, 18 CFR § 367.4264(b) makes clear that political activities do not include
18 “appearances before regulatory or other governmental bodies in connection with an
19 associate utility company’s existing or proposed operations.”⁵⁷³ Moreover, Order No. 22-
20 388 noted that when the Company was engaging “primarily in an informational capacity,”

⁵⁶⁸ NW Natural/4600, Williams/19-20.

⁵⁶⁹ NW Natural/4600, Williams/20.

⁵⁷⁰ NW Natural/4600, Williams/20.

⁵⁷¹ Coalition/500, Apter-Connolly32-/33 (citing Staff/1700, Rossow/3).

⁵⁷² NW Natural/4600, Williams/22 (citing Staff/1700, Rossow/4).

⁵⁷³ NW Natural/4600, Williams/22.

1 such communications were recoverable.⁵⁷⁴ As an example, the Company providing
2 emissions data in response to a request from a public official arguably may not be
3 required to provide safe and adequate service, but most certainly would be educational
4 information about the utility's existing operations that do not constitute political activities
5 or lobbying, and are clearly recoverable.⁵⁷⁵ Accordingly, the Coalition's argument is
6 clearly incorrect and should be rejected.

7 3. *The Company has properly tracked exception time.*

8 In accordance with Commission Order No. 22-388, NW Natural provided detailed
9 expense information that "clearly categorizes its [political] activity."⁵⁷⁶ The Company and
10 its employees have conscientiously tracked exception time such that the Commission and
11 stakeholders can clearly identify the amount of time NW Natural engaged in political
12 activities on an employee-by-employee basis, the related expenses, and the
13 unrecoverable cost center to which such expenses were deposited. In particular, the
14 Company provided Confidential NW Natural/3302, Williams, which includes 2,263 entries
15 of exception time reporting to FERC Account 426.4, with each entry identifying the
16 number of hours exception time reported, the dollar value of that exception time, the cost
17 center and FERC indicator, notes, and the employee personnel number.⁵⁷⁷

18 The Company has further provided clarity about the identity of the entity to which
19 it is lobbying, using the naming convention provided in the General Procedure for
20 transparency, consistency and simplicity/efficiency.⁵⁷⁸ In some cases, that means

⁵⁷⁴ NW Natural/4600, Williams/22 (citing Order No. 22-388 at 23).

⁵⁷⁵ NW Natural/4600, Williams/22-23.

⁵⁷⁶ Order No. 22-388 at 23.

⁵⁷⁷ NW Natural/3300, Williams/18.

⁵⁷⁸ NW Natural/3300, Williams/18.

1 identifying whether the legislative body/public official being lobbied is federal, state, or
2 local.⁵⁷⁹ In other instances, the time is “general” lobbying of an entity other than a
3 particular jurisdiction.⁵⁸⁰

4 In addition, NW Natural’s Accounting department reviewed exception time
5 reporting several times in 2023, and the Company has made adjustments as
6 appropriate.⁵⁸¹ When a situation arose that arguably may or may not be time spent on
7 political activity/lobbying, the Company erred on the side of caution and exception time
8 reported the activity so that customers did not pay for that time.⁵⁸² Accordingly, NW
9 Natural has objectively demonstrated its proper accounting of exception time in
10 accordance with the General Procedure, 18 CFR § 367.4264, and Order No. 22-388.

11 a. NW Natural’s exception time tracking contains sufficient information
12 to clarify the nature of communications between NW Natural and
13 government officials.

14 The Coalition argues that the Company’s exception time tracking does not contain
15 enough information to clarify the nature of communications between NW Natural
16 employees and government officials.⁵⁸³ The premise of the Coalition’s argument is
17 incorrect. To be clear, the Commission did not specify that NW Natural should detail the
18 substance of any such political activities, and to do so here would set a troubling
19 precedent in which the Commission demands to review and audit **costs for which the**
20 **utility is not seeking recovery.** This could not have been the Commission’s intent in
21 Order No. 22-388.

⁵⁷⁹ NW Natural/3300, Williams/18.

⁵⁸⁰ NW Natural/3300, Williams/18.

⁵⁸¹ NW Natural/3300, Williams/17.

⁵⁸² NW Natural/3300, Williams/17.

⁵⁸³ Coalition/200, Apter-Connolly/68-69.

1 Instead, NW Natural has reasonably interpreted the Commission’s direction and is
2 providing the appropriate level of detail to allow the Commission or a stakeholder to not
3 only track the quantity of hours engaged in lobbying on an individual employee basis, but
4 also to assess the jurisdiction of the political activities, if applicable, as well as the relevant
5 cost center and expenses. Accordingly, the Company has provided sufficiently detailed
6 records of its engagement in political activities in accordance with Order No. 22-388.

7 b. NW Natural is robustly tracking exception time despite certain entries
8 including blank “notes” fields in exception time reports.

9 The Coalition argues that the Company’s documentation of its exception time is
10 “unacceptable” because some of the exception time notations in the “notes” field were left
11 “blank.”⁵⁸⁴ This argument is without merit. As discussed above, the General Procedure
12 directs employees to indicate in the “notes” field either the relevant jurisdiction lobbied
13 (e.g., Federal; OR Leg.; Multnomah, Co.; Portland; etc.) or to label the activity as
14 “General” for time spent reading, writing, talking, thinking, etc. regarding an intent to
15 influence a legislative body or public official for something other than a particular
16 jurisdiction.⁵⁸⁵ While a blank description lacks the detail that is required by the Company’s
17 policy, it is not information required by Order No. 22-388 and is not indicative of a lack of
18 exception time tracking.⁵⁸⁶ Rather, the entry itself is evidence that employees did track
19 their time (and specifically to the political activities cost center).⁵⁸⁷ The Commission
20 should not penalize the Company due to certain entries including blank “notes” fields in
21 exception time reports. Moreover, the Company has committed to continuing to review

⁵⁸⁴ Coalition/500, Apter-Connolly/34; Coalition/200, Apter-Connolly/58, 65.

⁵⁸⁵ NW Natural/3300, Williams/18; Confidential NW Natural/1201, Williams/4.

⁵⁸⁶ NW Natural/3300, Williams/26.

⁵⁸⁷ NW Natural/3300, Williams/26.

1 and refine its General Procedure and how its employees implement the policy in the future
2 in order to mitigate minor discrepancies which are not unusual for a completely new
3 process.⁵⁸⁸ Implementing a new procedure involves a learning curve, and NW Natural
4 has made substantial efforts to comply with the Commission's directive in Order No. 22-
5 388. Completely eliminating the Company's entire Government Affairs team budget in
6 this instance, as the Coalition suggests, would prevent NW Natural from being able to
7 recover its legitimate and reasonable costs of providing utility service to the Company's
8 customers.

9 c. The Commission should not require NW Natural's Government
10 Affairs team to track and report time associated with its core utility
11 activities.

12 The Coalition seems to suggest that in order for stakeholders to be able to confirm
13 whether NW Natural's employees have properly characterized their time, the Company
14 should have also recorded their employees' time when engaging in recoverable
15 activities.⁵⁸⁹ Such a requirement is completely unjustified. To NW Natural's knowledge,
16 no utility tracks time for its core utility activities, and to do so discriminately here would be
17 a sharp departure from prior Commission practice, a major burden on the Company's
18 employees, and would increase costs to customers.⁵⁹⁰ Furthermore, the record in this
19 case includes representative sampling of correspondence with public officials that
20 constitutes core utility practice and is recoverable.⁵⁹¹ Accordingly, the Commission and
21 stakeholders have sufficiently detailed evidence and records on exception time reporting
22 in this case to assess whether NW Natural was engaging in political activities. The

⁵⁸⁸ NW Natural/3300, Williams/26-27.

⁵⁸⁹ Coalition/500, Apter-Connolly/30; Coalition/200, Apter-Connolly/67.

⁵⁹⁰ NW Natural/4600, Williams/14; NW Natural/3300, Williams/17-18.

⁵⁹¹ NW Natural/4600, Williams/14-16.

1 Commission should therefore reject the Coalition’s proposal that NW Natural be required
2 to track and report time spent engaging in recoverable activities.

3 d. The Commission should reject the Coalition’s recommendation to
4 require an additional annual reporting requirement.

5 The Coalition recommends that the Commission require NW Natural to provide
6 detailed annual reporting in all rate cases about: (1) expenses for the purpose of
7 influencing regulation or legislation, directly or indirectly; (2) expenses for the purpose of
8 influencing public opinion about policy issues or about the Company’s reputation; (3)
9 regulatory Commission expenses, including how much the Company spent on different
10 proceedings; (4) contributions to 501(c)(3) and 501(c)(4) non-profits; and (5) any litigation
11 the Company files to overturn rules or statutes.⁵⁹² With respect to reporting regarding
12 expenses for lobbying, the Commission already addressed this issue in Order No. 22-388
13 and NW Natural has made significant efforts to comply by implementing a completely new
14 policy and tracking and reporting exception time. To the extent that the Coalition is arguing
15 that the Commission should also require NW Natural to annually report information in
16 addition to its lobbying expenses, such a requirement is discriminatory, overly
17 burdensome, punitive, and not justified by the record in this case.

18 Moreover, the Coalition’s reliance on other states’ laws prohibiting recovery for
19 lobbying expenses and requiring annual reporting and penalties is misplaced for several
20 reasons.⁵⁹³ First, NW Natural is not seeking to recover its lobbying expenses. Second,
21 Oregon has not adopted annual reporting requirements like Colorado, Maine, and
22 Connecticut.⁵⁹⁴ To the extent the Coalition is suggesting that Oregon should adopt similar

⁵⁹² Coalition/200, Apter-Connolly/83.

⁵⁹³ Coalition/200, Apter-Connolly/83-87.

⁵⁹⁴ Coalition/200, Apter-Connolly/87.

1 laws, this rate case proceeding is not the proper venue to entertain legislative proposals.
2 To impose such a requirement on NW Natural would be discriminatory and overly
3 burdensome.

4 4. *The Commission should allow NW Natural to recover its Government Affairs*
5 *team budget for time spent on core utility functions.*

6 The Coalition proposes that the entirety of NW Natural's Government Affairs
7 budget should be disallowed.⁵⁹⁵ However, this proposal is entirely unsupported by the
8 record in this case. The Commission has previously recognized that "some proportion of
9 the [Government Affairs] department's work involves informational engagement and
10 education for local governments for which ratepayer support is appropriate."⁵⁹⁶ Here, the
11 Commission appropriately recognized the fact that each Government Affairs employee
12 has two roles in their engagement with jurisdictions and performs his or her duties
13 uniquely from other members of the Government Affairs team.⁵⁹⁷ The Commission should
14 allow NW Natural to properly recover its Government Affairs budget for time spent on
15 core utility functions, especially where the Company has complied with Order No. 22-388
16 and provided detailed reporting when the Government Affairs team engages in political
17 activities for which the Company does not seek recovery.

18 In many cases, a Government Affairs team employee's primary role is as a subject
19 matter expert for the utility, where they provide information to the local jurisdictions
20 regarding NW Natural as a utility and any utility-related data they may need.⁵⁹⁸ For
21 example, if a jurisdiction is working on a climate action plan, they might ask the Company

⁵⁹⁵ Coalition/500, Apter-Connolly/4, 39-40; Coalition/200, Apter-Connolly/8, 68-69.

⁵⁹⁶ Order No. 22-388 at 24.

⁵⁹⁷ NW Natural/3300, Williams/19.

⁵⁹⁸ NW Natural/3300, Williams/19.

1 for its emissions data to help inform the development of their plan.⁵⁹⁹ Other core utility
2 work performed by Government Affairs team employees, includes, but is not limited to:
3 coordination with regional utility partners on efficiency and reliability commitments,
4 especially during weather events; working with local governments and their public works
5 engineers on permitting processes; communicating with customers and the general public
6 about gas safety at community safety events; and responding to data requests in rate
7 cases.⁶⁰⁰ In accordance with Order No. 22-388, NW Natural considers activities in this
8 role as a subject matter expert to be a core utility service and appropriate for cost
9 recovery. No exception time reporting is required in these circumstances.⁶⁰¹

10 The Coalition argues that NW Natural should not be able to recover the entire
11 Government Affairs team budget because for certain Government Affairs team
12 employees—such as the Company’s Community Involvement Manager—their job title,
13 job description, and/or LinkedIn page indicates engagement in political activities.⁶⁰²
14 However, this argument is unprincipled and should be rejected as inconsistent with the
15 Commission’s policy in Order No. 22-388; the Company’s recovery should be based on
16 the time actually spent by the employee on core utility functions or non-core utility
17 functions.⁶⁰³ NW Natural has clearly demonstrated that factors such as a job description
18 do not determine all of the job functions an individual may perform. Job descriptions are
19 indicators about the potential scope of an employee’s responsibilities, but do not dictate

⁵⁹⁹ NW Natural/3300, Williams/19.

⁶⁰⁰ NW Natural/3300, Williams/19, 23-24.

⁶⁰¹ NW Natural/3300, Williams/19-20.

⁶⁰² Coalition/500, Apter-Connolly/38-39; Coalition/200, Apter-Connolly/67-68.

⁶⁰³ NW Natural/4600, Williams/27.

1 how an employee splits their time between core utility functions and political
2 activities/lobbying.⁶⁰⁴

3 In reality, Government Affairs employees do not perform lobbying activities 100
4 percent of the time, and each employee's activities, communications, and intentions are
5 different. For example, among the different Government Affairs employees, exception time
6 reported in 2023 for the Government Affairs team accounted for 51.1 percent, 38.2
7 percent, 34.3 percent, 30.7 percent, 26.5 percent, 22.7 percent, 7.3 percent and 4.3
8 percent of the various individuals' time.⁶⁰⁵ While these percentages (and their associated
9 dollar amounts) do provide snapshots of the Company's lobbying and political activities
10 that will vary significantly person to person, and year to year, the exception time reporting
11 under the General Procedure has provided a higher level of confidence in NW Natural's
12 reporting of lobbying and political activities to non-recoverable amounts.⁶⁰⁶

13 In fact, exception time reported in the Base Year (2023) of \$625,160 is within range
14 of the expenses reported in 2021 (\$506,223) and 2022 (\$592,226) using the previous
15 historical allocation method.⁶⁰⁷ Based on the exception time NW Natural reported under
16 the General Procedure in the Base Year and the consistency of such expenses with past
17 accounting, the Company is confident it is appropriately categorizing its lobbying and
18 political activities to cost accounts that are not recovered from its customers.

19 Finally, it is important to note that the Company is committed to continually
20 improving its General Procedure and time tracking efforts. NW Natural has developed a

⁶⁰⁴ NW Natural/4600, Williams/26.

⁶⁰⁵ NW Natural/3300, Williams/24.

⁶⁰⁶ NW Natural/3300, Williams/24-25; NW Natural/3305, Williams (Company Response to UG 490 Coalition DR 291).

⁶⁰⁷ NW Natural/3300, Williams/7.

1 robust General Procedure and provided substantial evidence of its exception time
2 reporting in accordance with the Commission’s direction in Order No. 22-388. For these
3 reasons, the Commission should allow NW Natural to recover its Government Affairs
4 team expense of \$1,725,922, taking into account Staff’s recommended Oregon-allocated
5 adjustment of \$11,572—which the Company does not oppose—for a total of
6 \$1,714,350.⁶⁰⁸ This amount accurately reflects the costs for the Government Affairs
7 team’s time spent engaging in core utility functions, which are appropriately recoverable,
8 and also reflects the Company’s removal of \$625,160 of exception time reported in the
9 Base Year for which the Company has not sought recovery in this case. The Coalition’s
10 recommendation to disallow the entire Government Affairs team budget is contrary to the
11 evidence in the record and overtly punitive, and therefore should be rejected.

12 **G. Rate Shock**

13 Parties in this case have raised concerns regarding rate shock associated with the
14 Company’s proposed rate increase, and CUB has proposed a suite of mitigation
15 measures that it argues could be used to address rate shock. However, as described
16 below, the increase in this case does not rise to a level that warrants consideration as
17 rate shock, and as a result of the updated revenue requirement resulting from the Second
18 Stipulation and PGA, CUB’s proposals are now moot. Additionally, the Commission’s
19 precedent makes clear that concerns about rate shock cannot be used as a tool to drive
20 lower revenue requirement, and the Commission should reject CUB’s rate shock
21 mitigation proposals.

⁶⁰⁸ NW Natural/3300, Williams/6.

1 1. *After reflecting the results of the Second Stipulation and PGA, CUB’s rate*
2 *shock proposal is moot.*

3 In this case, CUB proposes that any utility rate increase that exceeds 10 percent
4 should trigger a “rate shock finding.”⁶⁰⁹ However, even if the Commission were to accept
5 CUB’s definition—which NW Natural does not agree to, as described in more detail
6 below—the bill impact for residential customers in this case does not meet CUB’s
7 proposed threshold, and thus renders CUB’s claim moot. After reflecting the revenue
8 requirement from the Second Stipulation and the update to the PGA, the total bill impact
9 for residential customers is now estimated to be 7.0 percent.⁶¹⁰

10 Additionally, even before reflecting the PGA update, CUB omits key historical
11 context regarding the Company’s rate changes.⁶¹¹ If the Commission approves the
12 Company’s proposed rate increase as reflected in the Second Stipulation, the average
13 NW Natural residential customer bill is 12.8 percent *lower* than it was 15 years ago after
14 adjusting for inflation.⁶¹² And after factoring in the PGA, it would be even lower still. For
15 these reasons, CUB’s proposal is now moot.

16 2. *The Commission does not consider rate shock in setting revenue*
17 *requirement.*

18 The Commission has recognized that one of the goals it considers when setting
19 rates is to “promot[e] rate stability over time and avoid[] sudden substantial rate increases
20 (often referred to as ‘rate shock’).”⁶¹³ However, the Commission has been clear that it
21 cannot “use rate shock as a tool to authorize a revenue requirement that is unreasonably

⁶⁰⁹ CUB/100, Jenks/7-8.
⁶¹⁰ NW Natural’s Update to Response to Bench Request at 1, line 1 (Aug. 5, 2024).
⁶¹¹ NW Natural/2200, Kravitz/33.
⁶¹² NW Natural/4400, Kravitz/20.
⁶¹³ Order No. 08-487 at 66.

1 low.”⁶¹⁴ Instead, the Commission considers rate shock only in the rate spread and rate
2 design stage—and not in determining revenue requirement.⁶¹⁵

3 NW Natural does not dispute that it is seeking a substantial rate increase in this
4 case. But, as made clear in the Company’s testimony, NW Natural is seeking to increase
5 rates due to higher operating costs from inflation and to recover the costs of long planned
6 investments.⁶¹⁶ While NW Natural recognizes that any rate increase may be a hardship
7 for certain customers, the Company must continue to invest in its system to ensure
8 reliable and safe service.⁶¹⁷ Contrary to CUB’s claims,⁶¹⁸ the Commission cannot rely on
9 concerns about rate shock to exclude prudently incurred costs from the Company’s
10 revenue requirement.⁶¹⁹

11 3. *The Commission should reject CUB’s proposed rate shock mitigation*
12 *mechanism.*

13 CUB has proposed a rate shock mitigation mechanism to apply to NW Natural’s
14 proposed rate increase as well as the rate increases other utilities have requested.⁶²⁰
15 CUB’s proposal first applies a threshold for annual rate increases based on recently
16 enacted legislation limiting rental increases.⁶²¹ If a utility exceeds this threshold, CUB’s

⁶¹⁴ *In re Portland Gen. Elec. Co.’s Proposal to Restructure and Reprice Its Services in Accordance with the Provisions of SB 1149*, Docket UE 115, Order No. 01-988 at 5 (Nov. 20, 2001) (Intervening parties sought reconsideration of Commission-approved utility rates that increased overall rates by 38 percent—26 percent for residential customers—on the basis of rate shock and that customers would be severely impacted and that the Commission had erred in failing to consider the impact. The Commission rejected reconsideration, finding “[r]ate shock is a relevant factor in the rate design stage of the case; it plays no role in determining a utility’s revenue requirement.” Intervening parties additionally raised a phase-in of the rate increase and a reduction of non-power O&M costs which the Commission also rejected.).

⁶¹⁵ Order No. 01-988 at 5.

⁶¹⁶ NW Natural/100, Palfreyman-Kravitz/14; NW Natural/2200, Kravitz/2-3, 29-30; NW Natural/4400, Kravitz/20.

⁶¹⁷ NW Natural/100, Palfreyman-Kravitz/14; NW Natural/2200, Kravitz/30-31; NW Natural/4400, Kravitz/20.

⁶¹⁸ CUB/300, Jenks/8-9.

⁶¹⁹ NW Natural/4400, Kravitz/26.

⁶²⁰ CUB/100, Jenks/9, 14.

⁶²¹ CUB/100, Jenks/7.

1 proposed mechanism involves (1) Delaying the rate increase—with or without carrying
2 charges;⁶²² (2) Setting the ROE at a level that is not lower than the lowest reasonable
3 percentage;⁶²³ and (3) Requiring the utility to propose and implement other rate mitigation
4 measures.⁶²⁴ As discussed above, NW Natural’s requested rate increase does not cause
5 rate shock.⁶²⁵ Moreover, the Commission should not adopt CUB’s general
6 recommendation for a rate shock mitigation mechanism for the reasons discussed below.

7 a. CUB’s proposed rate shock threshold inappropriately compares
8 regulated utilities’ operations to less regulated private rental housing
9 and ignores historic rate changes.

10 CUB’s proposal is that any utility rate increase that exceeds a certain threshold—
11 10 percent—should trigger a “rate shock finding.”⁶²⁶ As support for this threshold, CUB
12 recommends that the Commission “look to” the recently enacted legislative limit on
13 residential rent increases to guide its determination of whether a particular rate increase
14 causes rate shock.⁶²⁷ That legislation limits annual increases in residential rents to the
15 lesser of either 10 percent or seven percent plus the annual increase in the Consumer
16 Price Index.⁶²⁸

17 CUB’s recommendation that the Commission look to the legislative limit on rent
18 increases ignores substantial differences in how utilities are regulated compared to the
19 rental housing market.⁶²⁹ Unlike rental housing, utilities are subject to cost-of-service

⁶²² CUB/100, Jenks/14; CUB/300, Jenks/2.

⁶²³ CUB/100, Jenks/14-15; CUB/300, Jenks/2.

⁶²⁴ CUB/100, Jenks/15; CUB/300, Jenks/2.

⁶²⁵ NW Natural/2200, Kravitz/33.

⁶²⁶ CUB/100, Jenks/7-8.

⁶²⁷ CUB/100, Jenks/7.

⁶²⁸ ORS 90.324(1)(a)-(b).

⁶²⁹ NW Natural/2200, Kravitz/32.

1 regulation.⁶³⁰ As the Commission discussed in a recent order, a regulated “utility must
2 have its rates reviewed and approved by the regulator rather than rely on competition to
3 result in fair and reasonable rates.”⁶³¹ This regulatory oversight limits cost recovery to
4 prudently incurred costs approved by the Commission. The same is not true of the rental
5 housing market where, absent a legislative limit, rents are set based on supply-and-
6 demand.⁶³² For this reason, the recently enacted cap on residential rents is not an
7 appropriate analogue for regulating utilities’ rates.⁶³³ Because utilities’ rates are already
8 set based on cost-of-service regulation, an additional cap on recovery would only serve
9 to prevent recovery of prudently incurred costs.⁶³⁴

10 Moreover, CUB’s proposed rate shock threshold inappropriately focuses only on
11 the impacts of a single rate change without considering the broader historical context of
12 a utility’s recent rate changes.⁶³⁵ Under its proposal, CUB states that “if inflation is 3%,
13 then the trigger [for rate mitigation] is 10%.”⁶³⁶ The problem with CUB’s approach is that
14 it simply compares present rates with proposed rates, ignoring the fact that NW Natural’s
15 rates go up and down over time.⁶³⁷ In 2023, for example, NW Natural’s residential rates
16 declined by 9 percent.⁶³⁸ In determining whether rates should be mitigated for 2024,

⁶³⁰ NW Natural/2200, Kravitz/32.

⁶³¹ See *In re PacifiCorp, dba Pacific Power, Advice No. 23-018 (ADV 1545), Modifications to Rule 4, Application for Electrical Service*, Docket UE 428, Order No. 24-155 at 6 (May 30, 2024).

⁶³² NW Natural/2200, Kravitz/32.

⁶³³ NW Natural/2200, Kravitz/32.

⁶³⁴ NW Natural/2200, Kravitz/32.

⁶³⁵ NW Natural/2200, Kravitz/33.

⁶³⁶ CUB/100, Jenks/14.

⁶³⁷ NW Natural/2200, Kravitz/33.

⁶³⁸ *In re Nw. Natural Gas Co. dba NW Natural Request for Amortization of Certain Deferred Accounts Related to Gas Costs, Schedules P, 162, 164*, Docket UG 486, Order No. 23-387, App. A at 8-12 (Oct. 26, 2023).

1 however, CUB’s proposal would not take into account the 2023 rate decrease.⁶³⁹ Instead,
2 it would simply compare current rates to rates that would go into effect November 1,
3 2024.⁶⁴⁰ Using CUB’s example of a 10 percent rate mitigation “trigger,” NW Natural’s
4 rates would be subject to mitigation if its overall 2024 rate increase is 11 percent.⁶⁴¹ This
5 result hardly constitutes “rate shock,” however, because even before reflecting the
6 impacts of the Second Stipulation and PGA on NW Natural’s proposed rate increase, the
7 total increase over the 2023-24 period would be approximately 2 percent (i.e., the 11
8 percent increase is offset by the 9 percent decrease the year before), and would be below
9 the inflation amount in CUB’s example.⁶⁴²

10 Finally, CUB has made this same proposal in electric utilities’ general rate cases
11 but fails to consider the unique position natural gas utilities face. Not all households and
12 businesses have natural gas service, and customers have other options for serving their
13 energy needs. This means that, even as a regulated utility, NW Natural competes for
14 business with other energy providers, and therefore, the Company is always motivated to
15 keep natural gas rates as low as possible while still being able to provide excellent
16 customer service, comply with safety standards, and maintain financial integrity as a
17 Company.⁶⁴³ Given these incentives, it is unnecessary to implement additional
18 restrictions aiming to reduce natural gas utilities’ costs of service.

⁶³⁹ CUB/300, Jenks/11-12.

⁶⁴⁰ NW Natural/2200, Kravitz/33.

⁶⁴¹ NW Natural/2200, Kravitz/33.

⁶⁴² NW Natural/2200, Kravitz/33.

⁶⁴³ NW Natural/2200, Kravitz/34.

1 b. The Commission should reject CUB’s recommended rate shock
2 mitigation mechanisms.

3 Despite the fact that NW Natural’s proposed rate increase does not reach CUB’s
4 proposed 10 percent threshold, CUB recommends that the Commission approve its
5 proposed rate shock mitigation mechanism in this case.⁶⁴⁴ CUB’s recommendation would
6 include (1) delaying recovery of amounts above the trigger;⁶⁴⁵ (2) setting the ROE to the
7 lowest percentage that is allowable;⁶⁴⁶ and (3) adopting appropriate rate shock reporting
8 requirements.⁶⁴⁷ The Commission should not implement any of these recommendations
9 in this case. Each of CUB’s recommended rate shock mitigations is problematic.

10 CUB’s first recommendation to delay recovery of prudently incurred costs would
11 violate Oregon law prescribing the 10-month suspension period for rate cases.⁶⁴⁸ In
12 Opening Testimony, CUB argued that NW Natural’s entire rate increase should take effect
13 on April 1, 2025, not November 1, 2024.⁶⁴⁹ In Rebuttal Testimony, CUB instead argued
14 that recovery in excess of its rate cap proposal should be delayed.⁶⁵⁰ NW Natural was
15 concerned that moving the entire rate increase to April 1, 2024 would violate ORS
16 757.215, which permits the Commission to suspend rates for up to 10 months.⁶⁵¹ CUB
17 suggests that the Commission could enter an order at the end of those 10 months to delay

⁶⁴⁴ CUB/100, Jenks/12.

⁶⁴⁵ CUB/100, Jenks/7-9.

⁶⁴⁶ CUB/100, Jenks/10-11.

⁶⁴⁷ CUB/100, Jenks/11.

⁶⁴⁸ ORS 757.210(1)(a) (requiring rates be fair, just, and reasonable); ORS 757.215(1) (authorizing the Commission to order the suspension of rates “for a period of up to nine months”).

⁶⁴⁹ CUB/100, Jenks/15 (“Rather than moving the amount of the increase above the rate shock threshold to April 1, the Commission should consider moving the rate effective date of the general rate case to April 1, 2025.”).

⁶⁵⁰ CUB/300, Jenks/5.

⁶⁵¹ NW Natural/2200, Kravitz/35.

1 the rate increase further.⁶⁵² Here, CUB offers a distinction without a difference, and NW
2 Natural believes that CUB’s proposal to delay recovery for a portion of the Company’s
3 prudently incurred costs would be tantamount to a suspension beyond the 10 months
4 provided by ORS 757.215.

5 Additionally, CUB’s proposal to delay recovery would effectively decrease NW
6 Natural’s rates below what the Commission determines to be fair and reasonable.⁶⁵³ CUB
7 recommends delaying, without deferral, recovery of NW Natural’s rates from November 1,
8 2024 to April 1, 2025.⁶⁵⁴ This delay is effectively a rate decrease (or a disallowance of
9 prudent costs) between November 1, 2024 and March 31, 2025, reducing the revenue
10 that the Company would receive during the winter heating season with no possibility of
11 subsequent cost recovery of those amounts through a deferral.⁶⁵⁵ In this case, the
12 Commission will set rates with an assumed rate effective date of November 1, 2024, and
13 delaying recovery of some of those costs for six months would lead to the Company
14 receiving less revenue during the Test Year than assumed when rates were set, denying
15 the Company an opportunity to earn a reasonable return.⁶⁵⁶

16 The Commission sets rates within a reasonable range that must protect the
17 competing interests of the utility and its customers.⁶⁵⁷ To protect customers, the rates
18 must be set at a level sufficiently low to avoid unjust and unreasonable exactions.⁶⁵⁸ To

⁶⁵² CUB/300, Jenks/9-10.

⁶⁵³ CUB initially recommended either deferring or delaying recovery, but in Rebuttal Testimony, CUB argued against allowing a deferral. CUB/300, Jenks/4-5.

⁶⁵⁴ CUB/300, Jenks/12.

⁶⁵⁵ NW Natural/4400, Kravitz/23.

⁶⁵⁶ NW Natural/4400, Kravitz/23.

⁶⁵⁷ *Federal Power Comm’n v. Hope Nat. Gas Co.*, 320 US 591, 603 (1944) (“The rate-making process...., i.e., the fixing of ‘just and reasonable’ rates, involves a balancing of the investor and the consumer interests.”).

⁶⁵⁸ Order No. 08-487 at 5.

1 protect the utility, “a utility’s authorized rate of return, and the resulting overall rates,” must
2 be sufficient to maintain the utility’s operating expenses and “financial integrity, allow the
3 utility to attract capital under reasonable terms, and be commensurate with returns
4 investors could earn by investing in other enterprises of comparable risk.”⁶⁵⁹ If the rates
5 “do[] not afford sufficient compensation, the State has taken the use of the utility property
6 without paying just compensation[,]” and such rates are confiscatory and violate the Fifth
7 and Fourteenth Amendments.⁶⁶⁰ Thus, rates must include a return to the utility that is
8 commensurate with the return on investments in similar enterprises and sufficient to
9 maintain the financial integrity of the utility:

10 From the investor or company point of view it is important that there be
11 enough revenue not only for operating expenses but also for the capital
12 costs of the business. These include service on the debt and dividends on
13 the stock. By that standard the return to the equity owner should be
14 commensurate with returns on investments in other enterprises having
15 corresponding risks. That return, moreover, should be sufficient to assure
16 confidence in the financial integrity of the enterprise, so as to maintain its
17 credit and attract capital.⁶⁶¹

⁶⁵⁹ *In re Portland Gen. Elec. Co.; Request for a General Rate Revision (UE 180), Annual Adjustments to Schedule 125 (2007 RVM Filing) (UE 181), Request for a General Rate Revision relating to the Port Westward Plant (UE 184)*, Dockets UE 180, UE 181, and UE 184, Order No. 07-015 at 28 (Jan. 12, 2007).

⁶⁶⁰ *Duquesne Light Co. v. Barasch*, 488 US 299, 308 (1989); see also *Pacific Tel. & Telegraph v. Wallace*, 158 Or 210, 224 (1938) (“[T]he constitution fixes limits to the rate-making power by prohibiting...the taking of private property without just compensation.”); *Hammond Lumber Co. v. Public Serv. Comm’n*, 96 Or 595, 604-05 (1920) (finding that when an entity “devotes its private property” for public use, the use “is always subject to the condition of just compensation,” because “[a] public service corporation cannot be expected to sacrifice its property for the public good”); *Hope Nat. Gas Co.*, 320 US at 605 (“Rates which enable the company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risks assumed certainly cannot be condemned as invalid, even though they might produce only a meager return on the so-called ‘fair value’ rate base.”); *Bluefield Water Works Co. v. Public Serv. Comm’n*, 262 US 679, 690 (1923) (“Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.”); *Smyth v. Ames*, 169 US 466, 547 (1898) (“What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience.”).

⁶⁶¹ *Hope Nat. Gas Co.*, 320 US at 603 (internal citations omitted); see also *Bluefield*, 262 US at 693 (“The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit[.]”).

1 Although the interests of customers and investors are competing, they are also
2 interrelated and reinforcing; a utility cannot provide adequate service to customers without
3 the ability to attract capital.⁶⁶² In fact, a utility would not be able to attract needed capital
4 if the rates do not provide sufficient revenue to pay the interest on its outstanding debt.⁶⁶³
5 Accordingly, as “[t]he Constitution protects the utility from the net effect of the rate order
6 on its property,”⁶⁶⁴ the Commission’s rate decisions must permit a utility to maintain
7 financial integrity and coverage ratios sufficient for investment-grade debt ratings.

8 Moreover, delaying rate increases prevents utilities from timely recovering
9 prudently incurred costs that are necessary to provide essential services, which is
10 contrary to the regulatory compact where utilities agree to economic regulation by the
11 Commission in exchange for the opportunity to timely recover prudently incurred costs,
12 plus a fair return on investment, and for an exclusive service area.⁶⁶⁵ While CUB asserts
13 “there is no regulatory compact that CUB is aware of that guarantees that the utility has
14 the power to decide the date that rates will change,”⁶⁶⁶ the Commission has recognized
15 the financial burden to the utility that delayed cost recovery can cause, and has rejected
16 proposals to delay recovery without interest.⁶⁶⁷

⁶⁶² Order No. 08-487 at 6.

⁶⁶³ Order No. 08-487 at 6.

⁶⁶⁴ *Duquesne Light Co.*, 488 US at 314.

⁶⁶⁵ See Or. Pub. Util. Comm’n, *SB 978 Actively Adapting to the Changing Electricity Sector* at 5 (Sept. 2018) (“The utility has the obligation . . . to serve anyone located within its service territory in a manner that is safe, reliable, and nondiscriminatory. In exchange, the utility is allowed the opportunity to collect the costs of providing that service, plus a fair return on investment, in rates set by the Commission.”) (available at [https://www.oregonlegislature.gov/committees/hee/Reports/SB%20978%20-%20PUC%20Actively%20Adapting%20to%20the%20Changing%20Electricity%20Sector%20\(report\).pdf](https://www.oregonlegislature.gov/committees/hee/Reports/SB%20978%20-%20PUC%20Actively%20Adapting%20to%20the%20Changing%20Electricity%20Sector%20(report).pdf)) (last visited Aug. 14, 2024).

⁶⁶⁶ CUB/300, Jenks/11.

⁶⁶⁷ Order No. 08-487 at 70-71 (For example, the Commission considered the balance between the utility and customers when it was faced with determining how to allow PGE to recover a portion of undepreciated investment in its retired Trojan nuclear generating facility and acknowledged the “time value of money” to

1 Additionally, earlier this year, CUB took a similar blunt-force tactic in PGE’s rate
2 case and, rather than seek to delay, asked that the Commission to dismiss the case
3 entirely.⁶⁶⁸ There, the Commission declined to do so because PGE had alleged that, in
4 the test year, it would “fall short of the revenue requirement it needs to run its business
5 and have the opportunity to earn an authorized rate of return,” the Commission was
6 required to evaluate PGE’s request and hold a hearing,⁶⁶⁹ and further that taking
7 summary action to prevent PGE from seeking to recover its costs and expenses would
8 upend “decades of established practice” at the Commission.⁶⁷⁰ Similarly, the Commission
9 cannot summarily decide to delay NW Natural’s recovery of its prudently incurred costs,
10 and instead must determine the Company’s authorized rates based on a full record
11 evaluated under the fair, just and reasonable standard.⁶⁷¹

12 CUB’s second recommendation is to set NW Natural’s ROE at the lowest level that
13 is still within a reasonable range.⁶⁷² However, subsequent to CUB recommending these
14 rate shock mitigation mechanisms, the parties in this case, including CUB, agreed to a
15 Stipulation under which NW Natural’s ROE will be 9.40 percent.⁶⁷³ Therefore, CUB’s
16 second recommendation is inapplicable to what ROE CUB recommends that the
17 Commission adopt in this case. That said, the Commission should not adopt a general
18 policy of limiting utilities’ ROE to mitigate potential rate shock. The Commission has made

the utility, stating that delayed recovery will actually cause PGE to under-recover its investment, and concluded that proposals to delay recovery without interest “would require [the] Commission to disregard its statutory duty to balance the interests of customers and the utility.”).

⁶⁶⁸ *In re Portland Gen. Elec. Co., Request for a General Rate Revision*, Docket UE 435, Order No. 24-110 at 1 (Apr. 25, 2024) (denying CUB motion to discuss PGE’s rate request).

⁶⁶⁹ Order No. 24-110 at 4.

⁶⁷⁰ Order No. 24-110 at 4.

⁶⁷¹ NW Natural/2200, Kravitz/36-37.

⁶⁷² CUB/300, Jenks/2.

⁶⁷³ Second Stipulation at 4.

1 clear that it cannot deny recovery of prudently incurred costs to address rate shock, as
2 discussed above.⁶⁷⁴ Moreover, the level of a utility's rate request, or its revenue
3 requirement, is not a factor that affects the cost of equity and, therefore, it should have
4 no bearing on how ROE is determined.⁶⁷⁵

5 Furthermore, CUB's proposal runs counter the *Hope*⁶⁷⁶ and *Bluefield*⁶⁷⁷ standards
6 that entitle a utility to a fair rate of return that is sufficient to attract needed capital at
7 reasonable rates.⁶⁷⁸ The *Hope* and *Bluefield* decisions provide that the fair rate of return
8 on equity should be: (1) commensurate with returns investors expect to earn on other
9 investments of similar risk (the "comparable risk" standard); (2) sufficient to assure
10 confidence in the Company's financial integrity (the "financial integrity" standard); and
11 (3) adequate to maintain and support the Company's credit and to attract capital (the
12 "capital attraction" standard).⁶⁷⁹ A fair and reasonable return satisfies all three of these
13 standards.⁶⁸⁰ Rate shock mitigation is not one of the standards.

14 Additionally, the level of a utility's rate request, or its revenue requirement, is not a
15 factor that affects the cost of equity; therefore, it should have no bearing on the
16 Commission's determination of the appropriate ROE in future rate cases.⁶⁸¹ Other items
17 that affect a customer's rates, such as gas commodity costs that are outside of the
18 Company's control, are also not considerations that the *Hope* and *Bluefield* decisions

⁶⁷⁴ Order No. 01-988 at 5.

⁶⁷⁵ NW Natural/4400, Kravitz/25.

⁶⁷⁶ *Hope Nat. Gas Co.*, 320 US at 603.

⁶⁷⁷ *Bluefield*, 262 US at 693.

⁶⁷⁸ NW Natural/2500, Coyne-Nelson/11-13.

⁶⁷⁹ *Hope Nat. Gas Co.*, 320 US at 603.

⁶⁸⁰ NW Natural/4400, Kravitz/25.

⁶⁸¹ NW Natural/2500, Coyne-Nelson/11; NW Natural/4400, Kravitz/25.

1 determined affect the cost of equity and should have no bearing on the ROE determined
2 in this or future rate proceedings.⁶⁸² Moreover, it is counterintuitive to only consider rate
3 changes in one rate class (i.e., the residential class) when determining an authorized
4 ROE, as CUB proposes.⁶⁸³ The ROE is applicable to all customer classes.

5 Finally, if CUB's proposal to set the ROE at the lowest reasonable rate were
6 adopted, investors would likely interpret that decision as a strong indication of greater
7 uncertainty and regulatory risk, thus increasing the Company's cost of equity.⁶⁸⁴ In the
8 end, customers would bear the burden and pay the ultimate cost. As such, to deny NW
9 Natural a compensatory return that appropriately recovers its capital costs, as is required
10 by *Hope* and *Bluefield*, would be contradictory to the foundational principles of the
11 regulatory compact.⁶⁸⁵ The recovery of capital costs, including the ROE, is not
12 discretionary.⁶⁸⁶ The cost of equity is a cost faced by the Company just like any other
13 component in the Company's cost of service, including the cost of debt, O&M costs, taxes,
14 and depreciation expense.⁶⁸⁷ Therefore, CUB's proposal to end-run the law requiring a
15 reasonable ROE is inappropriate.

16 CUB's final rate shock proposal is to implement additional rate shock mitigation
17 measures, including additional outreach to inform customers of available discounts,
18 reducing or suspending recovery of other deferred accounts, and a six-month moratorium
19 on residential disconnections.⁶⁸⁸ NW Natural does not agree that any of these mitigations

⁶⁸² NW Natural/4400, Kravitz/24-25.

⁶⁸³ CUB/300, Jenks/2.

⁶⁸⁴ NW Natural/2500, Coyne-Nelson/9-10.

⁶⁸⁵ NW Natural/2500, Coyne-Nelson/13.

⁶⁸⁶ NW Natural/2500, Coyne-Nelson/13.

⁶⁸⁷ NW Natural/2500, Coyne-Nelson/13.

⁶⁸⁸ CUB/100, Jenks/11.

1 are necessary.⁶⁸⁹ NW Natural has a significant outreach plan for its bill assistance
2 programs, including direct engagement with more than 250 Community Based
3 Organizations, 50,000 brochures distributed and 5,000 pre-launch program postcards
4 distributed to schools and homebound seniors, and public service announcements on
5 television and in digital advertisements.⁶⁹⁰ In fact, NW Natural's outreach strategy and
6 materials are often duplicated and modeled by other utilities.⁶⁹¹

7 CUB's recommendation to suspend or reduce amortization of deferred accounts is
8 wholly unsupported. CUB does not specify what accounts should be reduced or
9 suspended, but CUB's recommendation to alter recovery of costs recovered through
10 other proceedings is inconsistent with Commission precedent where the Commission has
11 considered rate shock in the context of a single proceeding and has not considered
12 cumulative impacts from other proceedings that may affect rates.⁶⁹²

13 Finally, CUB's proposed disconnection moratorium is unnecessary given recent
14 changes to the Division 21 rules that help to mitigate energy burden and provide a safety
15 net to prevent disconnections for non-payment. Consistent with these rules, NW Natural
16 has already expanded the cold weather moratorium parameters for all customers, limited
17 on field and reconnection fees, and removed late payment fees for low-income
18 customers.⁶⁹³

⁶⁸⁹ NW Natural/2200, Kravitz/39-40.

⁶⁹⁰ NW Natural/3200, Beck/40-41.

⁶⁹¹ NW Natural/2300, Tanaka/48-49.

⁶⁹² See, e.g., Order No. 08-487 at 76 (denying recommendation to "adjust other rate inputs to keep rates stable and to avoid rate shock"); see also Order No. 20-473 at 7 ("[T]emporary items [such as an annual power cost adjustment] do not change our review in establishing the revenue requirement for the rates that will be in effect until the company's next general rate case.").

⁶⁹³ NW Natural/2200, Kravitz/39.

1 **H. Multi-Year Rate Plan**

2 In this case, NW Natural has asked the Commission to direct the Company to file
3 a multi-year rate plan in its next general rate case.⁶⁹⁴ A multi-year rate plan would set
4 O&M costs for a period of several years, relying on a specific index or forecast (or some
5 combination thereof) that would dictate rate changes over the course of the plan.⁶⁹⁵ The
6 multi-year rate plan would also permit the Company to add capital projects to rates once
7 the Commission and stakeholders can conduct a prudency review.⁶⁹⁶ Although the
8 Company has not proposed a multi-year rate plan in this proceeding, Staff and CUB
9 commented on the matter, offering support and criticism.

10 Staff indicated that other states have adopted multi-year rate plans that might
11 provide guidance for any eventual Company proposal.⁶⁹⁷ CUB commented that while it
12 sees a purpose for multi-year rate plans, CUB and the Company are not aligned on the
13 approach and the goals for a multi-year plan.⁶⁹⁸ CUB argues that the Company “is seeking
14 to facilitate raising rates” whereas CUB seeks to “bring some efficiency to the regulatory
15 process.”⁶⁹⁹ CUB indicates that NW Natural’s proposal would still require a large rate case
16 every year but would decrease regulatory lag for capital projects, benefitting the
17 Company.⁷⁰⁰ CUB also argues that a multi-year rate plan as proposed by the Company
18 would be challenging in light of the timing required for prudence of capital projects.⁷⁰¹

⁶⁹⁴ NW Natural/4400, Kravitz/34; NW Natural/2200, Kravitz/41.

⁶⁹⁵ NW Natural/100, Palfreyman-Kravitz/32.

⁶⁹⁶ NW Natural/4400, Kravitz/33-34.

⁶⁹⁷ Staff/2400, Muldoon/10.

⁶⁹⁸ CUB/300, Jenks/16.

⁶⁹⁹ CUB/300, Jenks/16.

⁷⁰⁰ CUB/300, Jenks/16-17.

⁷⁰¹ CUB/300, Jenks/17-18.

1 Finally, CUB raises concerns that the Company's approach would disturb standard
2 methodologies that the Commission has set in place for aspects of ratemaking.⁷⁰²
3 Specifically, CUB comments that a multi-year rate plan would supplant the standard
4 methodologies for calculating utility recovery on (1) wages and salaries; (2) allowed rate
5 base additions; (3) pay at risk; (4) meals and entertainment; (5) uncollectibles; and (6)
6 directors & officers insurance costs.⁷⁰³ As such, CUB recommends that the Commission
7 should open an investigation into multi-year rate plans to allow more participation in the
8 discussion.⁷⁰⁴

9 The Company raised the potential of introducing multi-year rate plans with the goal
10 of promoting efficiency. Like CUB, NW Natural believes multi-year rate plans will bring
11 efficiency to the ratemaking process, promote predictability for customers, and eliminate
12 strain on Commission resources.⁷⁰⁵ The Company envisions a plan that would streamline
13 any general rate case, removing the elements that can be set to change at pre-defined
14 rates based on CPI or another metric.⁷⁰⁶ While there would be an annual process to
15 evaluate projects, the Company is open to productive discussions on how to make the
16 timing work for involved parties.⁷⁰⁷ Ultimately, while the Company acknowledges the
17 differing perspectives on this issue, it appreciates and supports CUB's request for
18 guidance from the Commission, though it opposes a recommendation for an official

⁷⁰² CUB/300, Jenks/20.

⁷⁰³ CUB/300, Jenks/21.

⁷⁰⁴ CUB/300, Jenks/19-20.

⁷⁰⁵ NW Natural/4400, Kravitz/32-33.

⁷⁰⁶ NW Natural/4400, Kravitz/33.

⁷⁰⁷ NW Natural/4400, Kravitz/33-34.

1 investigation docket to be opened. However, the Company will participate in any forum
2 the Commission makes available to discuss this topic.

3 In sum, the Company continues to see the benefits of multi-year rate plans for
4 customers, participants in rate case dockets, and utilities. NW Natural intends to pursue
5 multi-year rate plans in the future and requests that the Commission provide guidance
6 based on the record developed in this case.

7 **IV. CONCLUSION**

8 For the reasons set forth above, NW Natural respectfully requests that the
9 Commission: (1) adopt the Company’s rate design proposal, including a monthly fixed
10 rate charge of \$24.50 for new, single-family premises and \$22.50 for new, multi-family
11 premises, and the Company’s proposed decoupling mechanism that bifurcates
12 customers residing in premises connected to the system on or after November 1, 2024;
13 (2) adopt the Company’s proposed LEA model as it incorporates the direction from the
14 Commission for an LEA that reflects the costs of GHG emissions reduction compliance
15 for new and existing customers and demonstrates a pathway for responsible growth of
16 the gas system while providing benefits to existing customers, and reject Staff’s, CUB’s,
17 and the Coalition’s proposals to eliminate or phase out the LEA; (3) find that NW Natural’s
18 administration of Schedule X is prudent, reasonable, and consistent with the tariff’s
19 language and decline to retroactively disallow LEA rate base; (4) adopt the Company’s
20 proposed changes to the Schedule 198 earnings test to add a deferral to allow the
21 Company to recover costs incurred between the in-service date and the rate effective
22 date for projects that are placed in service during the Test Year and for which costs are
23 currently non-recoverable and to remove the deadbands 50 basis points above and below

1 the Company's authorized ROE and instead set the earnings test at authorized ROE; (5)
2 decline to adopt the Coalition's proposed change the OLIEE program to use natural gas
3 customer funds to electrify NW Natural's customers to the detriment of its remaining
4 customer base; (6) reject the Coalition's proposals to disallow NW Natural's Government
5 Affairs expense for the Test Year and require the Government Affairs team to track and
6 report time for its core utility activities; (7) reject CUB's rate shock proposal; and (8)
7 provide guidance to inform any future Company proposal for a multi-year rate plan in its
8 order in this docket.

9 The Company further requests that the Commission approve the First, Second,
10 and Third Stipulations without modification because they represent a reasonable
11 resolution to the remaining issues in this case.

Respectfully submitted this 15th day of August, 2024.



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