BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 490

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

I. INTRODUCTION

Pursuant to the procedural schedule adopted by the Public Utility Commission of Oregon ("Commission"), Alliance of Western Energy Consumers ("AWEC") submits this Closing Brief in the above referenced docket. This proceeding relates to Northwest Natural Gas Company's ("NW Natural") request to increase its Oregon jurisdictional revenues by $154.9 million, and to revise certain non-revenue requirement aspects of its operations.

AWEC was able to settle most of the issues that relate to large volume sales and transportation customers through the First Partial Multi-Party Stipulation ("First Stipulation"), and Second Partial Multi- Party Stipulation ("Second Stipulation"), which collectively reduce NW Natural's revenue requirement to $95 million and spreads those costs consistent with cost causation principles. AWEC urges the Commission to approve both of those stipulations because they result in rates that are fair, just and reasonable and are in the public interest.

At this stage of the proceeding there are only a few contested issues remaining. Of the remaining issues, AWEC will only be addressing: (1) NW Natural's request for an advisory opinion on a multi-year rate plan; (2) NW Natural's request to modify Schedule 198, its Renewable Natural

Gas ("RNG") Automatic Adjustment Clause ("AAC"); (3) the Coalition's proposed adjustment to NW Natural's Governmental Affairs expenses (the "Coalition's lobbying expense adjustment"); and (4) the Oregon Citizens' Utility Board's rate shock proposal.

II. EXECUTIVE SUMMARY

The parties in this proceeding have worked cooperatively to resolve NW Natural's request to increase Oregon jurisdictional revenues and to aid the Commission in establishing rates and terms and conditions of service for NW Natural that are fair, just, and reasonable. As explained more fully below, AWEC respectfully requests that the Commission:

1. Approve the First Stipulation and Second Stipulation that reduced NW Natural's filed case from $154.9 million to $95 million, established the cost of long-term debt at 4.712 percent, established a return on equity at 9.4 percent, set the overall rate of return at 7.056 percent, and settled rate spread consistent with cost causation principles, among other contested issues.

2. Reject NW Natural's request for an advisory opinion on the future filing of a multi-year rate plan. Multi-year rate plans are generally more favorable to utilities because they use forecasts and projections rather than actual costs to set rates to the detriment of ratepayers.

3. Authorize NW Natural to increase its revenue requirement by $95 million as provided in the Second Stipulation, which already assumes that NW Natural's lobbying expense adjustment has been disallowed as recommended by the Coalition. An increase of $95 million to NW Natural's Oregon jurisdictional rates results in rates that are fair just and reasonable.

4. Reject NW Natural's proposed revisions to the AAC. The AAC was approved in NW Natural's prior rate case, UG 435, and NW Natural is seeking to relitigate issues surrounding the AAC to make it more favorable for its shareholders. Further, its proposed revisions do not fairly balance the interest of ratepayers and shareholders. The AAC, as it is currently designed, is single issue ratemaking, that allows rate changes between rate cases. The AAC already benefits NW Natural, and NW Natural failed to demonstrate that its proposed revisions are fair, just and reasonable.

5. Apply CUB's rate shock proposal to all customer classes if the Commission determines that the proposed mechanism is lawful and results in rates that are fair, just and reasonable.

A. The Commission Should Decline to Provide an Advisory Opinion on the Future Use of a Multi-Year Rate Plan

NW Natural is asking for an advisory opinion from the Commission related to a future--to be filed--multi-year rate plan. This is not a contested issue in this rate case because NW Natural did not file a multi-year rate plan, and therefore the issue is not ripe for consideration. Further, there is not enough evidence in the record for the Commission to determine that such a multi-year rate plan is justified or would result in rates that are fair, just and reasonable.

Rather than requesting to open an investigation in a separate docket, NW Natural filed generic testimony describing why it believes a multi-year rate plan is justified. In general, AWEC has concerns with a multi-year rate plan because it will likely favor the Company's shareholders to the detriment of ratepayers. The premise of the multi-year rate plan is that the Company will project its future costs, expenses and capital projects over time with the ability to recover those future assumed costs without the need to file a general rate case. Such a rate plan, for example, would have Year 1 rates, and Year 2 rates. Year 1 rates would go into effect on the rate effective date, and Year 2 rates would go into effect 1 year after the rate effective date assuming the requirements for Year 2 rates have been met. This enables to Company to add capital projects to rate base on a rolling basis, and potentially to capture other expenses that the Company will claim are known and measurable without the scrutiny of a rate case. The Company claims this is intended to be efficient and could potentially benefit customers. AWEC disagrees.

Oregon requires plant to be used and useful before it is included in rates, and a multi-year rate plan could run afoul of that standard depending on how the rate plan is designed by the utility. A multi-year rate plan also potentially provides all upside to the company with automatic rate increases without the ability to look at other areas where costs may have potentially decreased for

the Company. A multi-year rate plan also is intended to reduce or eliminate regulatory lag altogether, which is one aspect of ratemaking that has a small benefit to customers. Utilities control the timing of rate cases and have the ability to time the rate effective date to when plant is expected to go in service to eliminate or reduce so called regulatory lag.

If NW Natural is allowed to file such a multi-year case, it has an incentive to at least spend what it projected in its multi-year plan, without a corresponding incentive to save on costs through operational efficiencies. Once rates are set in a rate case, if the Company is overearning it is allowed to retain those earnings, but if the Company is underearning, it has an incentive to operate more efficiently and to spend less. This dynamic goes away with a multi-year rate plan. Along with its multi-year rate plan, NW Natural may also ask for a portfolio review of capital projects rather than an individual review of the projects, which also favors the Company because projects are reviewed as a large portfolio instead of on a project by project basis, and cost overruns can be absorbed by other projects in the portfolio.

NW Natural's request to reduce regulatory risk and lag through a multi-year rate plan should be rejected. It is important to note that gas utilities already have mechanisms to recover a significant portion of their costs outside of rate cases through the purchased gas adjustment mechanism and the AAC. These trackers already significantly reduce the risk to the Company and allow for rate increases outside of a general rate case. There is no need to tip the scale further in favor of NW Natural.

The Commission should not provide NW Natural an advisory ruling in this docket on whether to allow a multi-year rate plan. If the Commission were inclined to support a multi-year rate plan, it will inevitably be followed by every other utility regulated by the Commission. Because of that, a multi-year rate plan, and the requirements and limitations for such a plan, should only be considered in a general policy docket with all Oregon regulated utilities and

interested stakeholders involved.

B. The Commission Should Not Disturb The $95 Million Revenue Requirement Increase In The Second Stipulation That Already Assumes NW Natural's Lobbying Expense Adjustment Has Been Disallowed

As part of its filed case, NW Natural included a Government Affairs expense of $1,714,350, after adjustments. The Coalition has proposed to disallow NW Natural's Governmental Affairs expense which remains a contested issue in this case. The $95 million black box revenue requirement settlement in the Second Stipulation already assumes that NW Natural's Government Affairs or lobbying expense amounts have been disallowed. As a result, if NW Natural prevails on that issue, the revenue requirement will *increase*. The Commission should approve the $95 million black box revenue requirement increase provided in the Second Stipulation as those rates are fair, just and reasonable. If the Commission authorizes NW Natural to also recover its Government Affairs or lobby expense amounts, this will increase the $95 million black box settlement and will result in a higher rate burden for ratepayers who are already facing a major increase to rates.

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

NW Natural argues that its proposed revisions to its AAC are intended to address regulatory lag and to remove so called disincentives for the Company in the Schedule 198 earnings test. NW Natural, however, has not presented a compelling case to justify its changes to the AAC. The AAC was previously authorized in NW Natural's prior rate case, UG 435, and the Commission should reject NW Natural's attempt to modify the AAC to reduce the protections provided to ratepayers.

The ACC is a single-issue ratemaking mechanism, allowing NW Natural to adjust rates related to RNG outside of the general rate case process. The AAC is very favorable to NW Natural. This also potentially creates an unbalanced approach where NW Natural can avoid filing

a rate case if it is overearning, while still recovering additional revenues from capital related to RNG through the ACC. Single-issue ratemaking typically benefits only shareholders because it ignores other factors that otherwise influence and potentially decrease the utility's operating results.

Further, NW Natural is proposing certain adjustments to the earnings test for Schedule 198. NW Natural has not presented evidence sufficient to justify changing the earnings test, and supports Staff and CUB arguments in opposition to NW Natural's proposed adjustments. The AAC was designed to provide a benefit to customers through the earnings test while allowing the company to recover RNG related costs outside of a rate case. The Commission should not erode the protections for ratepayers in the AAC or make the AAC more favorable to NW Natural to the detriment of customers.

D. If the Commission Approves CUB'S Rate Shock Proposal, it should apply to all Customer Classes

Ratepayers are faced with increasing and unprecedented cost pressures associated with rate cases, natural gas costs, RNG and environmental regulation. As a result, CUB is asking for a novel rate shock mechanism to delay implementation of a portion of an approved rate increase. CUB proposes a Rate Shock Mechanism for a total residential rate increase capped at 10 percent or 7 percent plus the rate of inflation.[1] If the percentage rate increase goes over the cap, the rate shock mechanism would be triggered. Amounts up to the 10 percent threshold would be placed into rates on the Rate Effective Date of November 1. Amounts over that threshold would be placed into rates effective April 1.

AWEC does not necessarily object to the proposal in concept, but questions whether the Commission can adopt and find that rates are fair, just and reasonable on the Rate Effective Date, and

[1] See CUB/100/Jenks/7-18

then delay collection of a portion of those rates to some point in the future without a deferral. In doing so, the Commission would need to authorize a lower revenue requirement and justify the delayed collection of revenues from customers. If the Commission approves such a mechanism, however, it should apply to all customers, not just residential customers. All utility customers are facing increased energy costs and pressures. In the last month, Willamette Falls Paper Company announced layoffs impacting most of its workforce and a decision to permanently close the Portland plant will be made by August 30, 2024, potentially resulting in the permanent layoff of hundreds of employees. In 2022, Columbia Steel Casting Company, which had been operating for more than 100 years, closed its Portland facility resulting in the permanent layoff of 225 employees. AWEC's members provide 1000s of living wage jobs to residential customers, and are facing the same cost pressures as other customers. If the Commission were to adopt CUB's rate shock proposal, it should apply to all customers.

III. CONCLUSION

AWEC urges the Commission to approve both the First Stipulation and the Second Stipulation because they result in rates that are fair, just and reasonable. The First and Second Stipulations are a fair resolution of the issues in this docket and are not opposed by any party.

The Commission should also: (1) decline to provide an advisory opinion on a multi-year rate plan in this docket without involving other utilities and stakeholders; (2) decline to approve NW Natural's proposed modifications to the ACC; (3) only approve the $95 million revenue requirement increase which assumes the Coalition's Lobbying Expense Adjustment has been disallowed; and (4) if the Commission approves CUB's rate shock proposal, it should apply equally to all customer classes.

Dated this 27th day of August 2024.

Respectfully submitted,

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