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September 3, 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 Closing 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 CLOSING BRIEF**

September 3, 2024

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1 **I. INTRODUCTION**

2 In this proceeding, Northwest Natural Gas Company, dba NW Natural (“NW  
3 Natural” or “Company”) presented innovative solutions to gradually reduce throughput,  
4 promote the decarbonization of its system, and protect customers, while preserving the  
5 Company’s financial health. NW Natural has shared its vision for responsible, low-use  
6 customer growth, with rate design and line extension allowance proposals that are  
7 designed to facilitate the realization of this vision. However, the parties in this case fail to  
8 appreciate the Company’s strategic pivot of its business model, which embraces the low-  
9 use customer, increases the fixed charge for new premises customers to prevent  
10 subsidization flowing to them, and recognizes that the natural gas distribution and storage  
11 system supports the region’s capacity needs during the winter. The parties do not support  
12 this vision and would rather build barriers to customer and company growth.

13 The parties premise their opposition upon the assumption that the Company  
14 cannot achieve compliance with new greenhouse gas (“GHG”) regulations, and on that  
15 basis, cannot continue to grow the system. They similarly assume that existing customers  
16 will electrify all of the appliances in their homes leading to negative customer growth.  
17 These arguments rely heavily on speculation, rehash arguments made in the Company’s  
18 last general rate case, and are not supported by the record in this case. The parties’  
19 positions are not only outdated and unsupported, they are also contradictory—on the one  
20 hand, claiming that NW Natural is taking a “business as usual” approach, presumably  
21 because NW Natural is planning to continue to operate and connect customers who want  
22 natural gas service, while on the other hand, rejecting the Company’s proposals as too  
23 “radical.”

1           To be clear, the landscape has changed since the last case, and there is no basis  
2 in this record to find that the Company cannot meet its GHG reductions obligations while  
3 also continuing to grow. The record demonstrates that the Company has committed to  
4 pursuing a least-cost and least-risk compliance path, consistent with the Commission’s  
5 direction in the Company’s 2022 Integrated Resource Plan (“IRP”) order. Additionally, in  
6 docket UG 435, the specter of the potential for municipal gas bans loomed over the  
7 parties’ arguments and the Commission’s consideration of issues related to the future of  
8 the gas system. These same considerations are not present in this case, following the  
9 Ninth Circuit striking down the City of Berkeley’s natural gas ban.<sup>1</sup> On the record in this  
10 case, NW Natural has demonstrated that new customers want natural gas service, and  
11 the Company is continuing to see net growth on its system, despite parties’ unsupported  
12 claims that there will instead be widespread customer attrition. Notably, such claims  
13 about possible customer attrition are not supported by evidence on the record, but instead  
14 are based in pessimistic speculation about the future of the gas system.

15           Additionally, parties raise concerns about affordability in a variety of different  
16 ways—through the Oregon Citizens’ Utility Board’s (“CUB”) arguments about its Rate  
17 Shock proposal, through the Coalition arguing that funding electric heat pumps through  
18 the Oregon Low-Income Energy Efficiency Program (“OLIEE”) will help low-income  
19 customers avoid the economic “death spiral” of the natural gas utility, and through Staff’s  
20 concerns that the Company’s proposal for a New Premises Customer Charge will  
21 disproportionately impact low-income customers. While there are legal and factual  
22 deficiencies in each of these arguments, as discussed below, it also bears noting that

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<sup>1</sup> See *Cal. Rest. Ass’n v. City of Berkeley*, 65 F4th 1045, 1048 (9th Cir. 2023).

1 these arguments concerning affordability entirely ignore the fact that the stipulated rate  
2 increase in this case for the residential class (after reflecting the Purchased Gas  
3 Adjustment (“PGA”)) has been reduced to a modest 7.0 percent, and further that  
4 significant rate mitigation is already afforded through the Company’s bill discount  
5 program. In fact, the Company proposed to significantly enhance its bill discount program  
6 in its Direct Testimony to target energy burden to 3 percent of income, and as a result of  
7 the Second Stipulation, the discounts were even further enhanced, and will also be  
8 complimented with an Arrearage Management Program for Tier 0 customers.<sup>2</sup> The  
9 Company has already put into place mitigation, and if adopted, the Second Stipulation  
10 will ensure that the mitigation flows to the customers who will need it the most.

11           Considering this context and the evidence on the record in this proceeding, the  
12 Company respectfully requests the Commission to:

- 13           • Approve the First, Second, and Third Stipulations without modification.
- 14           • Approve the Company’s proposal to bifurcate the decoupling baseline using  
15           the rate effective date in this case and to reject Staff’s proposal to set the  
16           demarcation date for bifurcating the decoupling baseline at January 1, 2018.
- 17           • Approve the Company’s New Premises Customer Charge proposal that  
18           follows principles of sound rate design, is cost of service based, and  
19           promotes residential intra-class equity.
- 20           • Approve the Company’s proposal for an innovative and adaptable line  
21           extension allowance (“LEA”) that will incentivize lower-use customers to join  
22           the system.
- 23           • Reject CUB and the Coalition’s<sup>3</sup> proposal, related to the Company’s  
24           administration of Schedule X, to remove rate base that was found prudent  
25           and approved in prior Commission orders, because this adjustment would  
26           ignore three past Commission-approved stipulations and undermine  
27           regulatory certainty in Oregon and because NW Natural has consistently  
28           complied with its tariff.

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<sup>2</sup> Second Partial Stipulation at 6 (July 24, 2024) [hereinafter, “Second Stipulation”].

<sup>3</sup> The Coalition is collectively made up of the Coalition of Communities of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon Environmental Council, Community Energy Project, and Sierra Club.

- 1 • Approve the Company’s proposal to modify the Renewable Natural Gas  
2 (“RNG”) Automatic Adjustment Clause (“AAC”) to include a deferral and  
3 eliminate the deadbands on the earnings test and instead set the earnings  
4 test to the authorized return on equity.
- 5 • Reject the Coalition’s proposal to modify the OLIEE program to use natural  
6 gas customer funds to provide electric heat pumps, and instead allow the  
7 OLIEE program to continue in place as it currently exists.
- 8 • Allow the Company to recover its Government Affairs expense, a total of  
9 \$1,714,350, which accurately reflects the costs for the Government Affairs  
10 team’s time spent engaging in core utility functions, which are appropriately  
11 recoverable, and also already reflects the Company’s removal of \$625,160  
12 of exception time reporting in the Base Year.
- 13 • Reject CUB’s rate shock mitigation proposal as illegal and contrary to the  
14 regulatory compact.
- 15 • Provide guidance to NW Natural and the parties based on the record in this  
16 case regarding the use of a multi-year rate plan.

17 **II. ARGUMENT REGARDING LITIGATED ISSUES IN THIS CASE**

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

19 **1. *Decoupling***

- 20 a. Staff’s proposal to bifurcate the decoupling baseline as of 2018 will  
21 create a revenue deficiency for the Company.

22 In Surrebuttal Testimony, the Company explained that Staff’s proposal to bifurcate  
23 the decoupling baseline as of 2018 “would create a misalignment between the Decoupling  
24 Mechanism and the Company’s revenue requirement outcome in this proceeding[.]”<sup>4</sup>  
25 This is because, as demonstrated in NW Natural/4802, Wyman-Walker/1, Staff’s proposal  
26 creates a deficiency of 4,380,812 therms annually for purposes of the decoupling  
27 mechanism, which is not accounted for in the Company’s revenue requirement  
28 calculation. As the Company explained in testimony, had the starting point for the  
29 revenue requirement calculation been reduced because of a lower assumed use per

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<sup>4</sup> NW Natural/4800, Wyman-Walker/12.

1 customer (“UPC”) for a subset of customers, the revenue requirement proposed by the  
2 Company would necessarily be higher.<sup>5</sup>

3 Without providing any analysis to support its position, Staff states “[m]athematically  
4 speaking, Staff’s proposal should not affect the Company’s revenue requirement in this  
5 case,” and further, that perhaps the Company means that “Staff’s proposed change would  
6 reduce the Company’s revenue requirement by \$3 million in a future rate case . . . .”<sup>6</sup>  
7 However, the actual mathematics demonstrate that the Company will be precluded from  
8 recovering its revenue requirement if the decoupling baseline and the revenue  
9 requirement calculation were to assume different values for total therms delivered. The  
10 resulting difference in margin revenues is \$3,361,959, and the practical result of Staff’s  
11 failure to align the baseline UPC for revenue requirement and baseline UPC for  
12 decoupling is that this amount will be sur-credited to customers through the decoupling  
13 mechanism.<sup>7</sup> This is a real problem in this case and not in a future case, as the difference  
14 in margin revenues will begin to be sur-credited to customers almost immediately after  
15 rates go into effect on November 1, 2024. If adopted, the result of Staff’s recommendation  
16 is that the Company would not even have the opportunity to recover the revenue  
17 requirement that is set forth in the Second Stipulation. For the foregoing reasons, the  
18 Commission should decline to adopt Staff’s recommendation, and instead set the  
19 demarcation date for bifurcating the decoupling baseline at November 1, 2024.

20 In its Closing Brief, Staff states “[t]o the extent NW Natural is correct and is  
21 potentially harmed by a discrepancy between Staff’s proposed UPCs and the UPCs used

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<sup>5</sup> NW Natural/4800, Wyman-Walker/14.

<sup>6</sup> Staff’s Opening Brief at 20-21.

<sup>7</sup> NW Natural/4802, Wyman-Walker/1.

1 in revenue requirement, the harm can be addressed at the time of amortization of the  
2 PGA.”<sup>8</sup> This is not quite right. The amortization of the PGA is unrelated to NW Natural’s  
3 concern. However, in the alternative, if the Commission were to decline to adopt the  
4 Company’s proposed demarcation date and instead adopt Staff’s proposal, the  
5 Commission should clearly direct the Company to use revised load assumptions in its  
6 compliance filing in this proceeding. Specifically, the Commission should direct the  
7 Company to revise the total therms delivered for the residential class used to calculate  
8 the revenue requirement, which is 425,260,256 therms, to instead match the total therms  
9 delivered that would be assumed if the demarcation date for the decoupling baseline were  
10 set at January 1, 2018, which is 420,879,444 therms.<sup>9</sup> This revision would have the  
11 practical effect of reestablishing alignment between the decoupling mechanism and the  
12 final revenue requirement outcome as ordered by the Commission in this proceeding in  
13 the event Staff’s proposal is adopted.<sup>10</sup>

14           b. Staff and the Coalition’s position regarding the vintage for the  
15 decoupling baseline is inconsistent with their opposition to the use of  
16 a vintage for the New Premises Customer Charge.

17           In its Closing Brief, the Coalition joins Staff’s argument that the decoupling  
18 demarcation date should be set to January 1, 2018.<sup>11</sup> However, neither Staff nor the  
19 Coalition reconcile their inconsistent positions regarding using home vintage to set the  
20 demarcation date for the decoupling baseline—which is premised on lower customer  
21 usage for the new premises cohort—with their opposition to using home vintage **for the**

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<sup>8</sup> Staff’s Closing Brief at 9.

<sup>9</sup> NW Natural/4802, Wyman-Walker/1.

<sup>10</sup> Regardless of whether Staff’s or the Company’s proposal is adopted, the Company will include only the final revenue requirement outcome as ordered by the Commission in rates at the effective date of this proceeding.

<sup>11</sup> Coalition’s Closing Brief at 19.

1 **exact same reason** for the New Premises Customer Charge. Simply put, if the rationale  
2 holds for the decoupling mechanism, it must also hold for the New Premises Customer  
3 Charge.

4 2. *New Premises Customer Charge*

5 a. The Company's proposed New Premises Customer Charge is not  
6 discriminatory.

7 Staff, CUB, and the Coalition assert that the New Premises Customer Charge is  
8 discriminatory, and CUB specifically alleges that the New Premises Customer Charge is  
9 impermissible discrimination in violation of ORS 757.325 and ORS 757.310(2).<sup>12</sup>  
10 Contrary to these claims, the New Premises Customer Charge is not discriminatory  
11 because it is based on consideration of the quantity of gas consumed by customers, and  
12 is proposed to specifically address an intra-class subsidization problem associated with  
13 new customers not paying their full cost of service through the current rate design.<sup>13</sup>

14 Generally, a utility cannot discriminate within a customer class under ORS 757.310  
15 or engage in unjust or undue discrimination among customer classes under  
16 ORS 757.325. ORS 757.230(1) lays out the factors that may be considered for  
17 differentiating treatment of customers for service classifications:

18 the quantity used, the time when used, the purpose for which used, the  
19 existence of price competition or a service alternative, the services being  
20 provided, the conditions of service, differential energy burdens on low-  
21 income customers and other economic, social equity or environmental  
22 justice factors that affect affordability for certain classes of utility customers,  
23 and any other reasonable consideration.  
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<sup>12</sup> Staff's Opening Brief at 22-25; Staff's Closing Brief at 2; CUB's Opening Brief at 27-29; CUB's Closing Brief at 3; Coalition's Opening Brief at 1-2, 20-24; Coalition's Closing Brief at 12-19. Staff and CUB also argue that the New Premises Customer Charge is "unsupported by the record." Staff's Opening Brief at 16; CUB's Closing Brief at 3. Such arguments are unfounded as NW Natural has provided well over a hundred pages of testimony of record on the topic, which is responsive to each of the parties' arguments. See NW Natural/1800, Wyman/59-87; NW Natural/3900, Wyman/23-77; NW Natural/4800, Wyman-Walker/3-51.

<sup>13</sup> NW Natural/4800, Wyman-Walker/33-35, 43, 49-50.

1 For example, the Commission has previously rejected class distinctions based solely on  
2 geographic location where the customers in different regions had similar load  
3 characteristics.<sup>14</sup>

4 However, there is clear justification for the Company's proposed New Premises  
5 Customer Charge under the "quantity used" factor, because it is undisputed in the record  
6 that new customers consume fewer therms than existing customers.<sup>15</sup> Here, NW Natural  
7 has provided evidence in the record that the average UPC for new premises customer is  
8 210.8 therms (31.9 percent) lower than the average UPC for existing premises customers,  
9 and accordingly the "quantity used" justification provides a clear and compelling cost of  
10 service-based rationale for differentiating new premises customers.<sup>16</sup> Additionally,  
11 because the New Premises Customer Charge is proposed to address an intra-class  
12 subsidization, the Commission could also draw from "other economic, social equity or  
13 environmental justice factors" or "any other reasonable consideration" to find an additional  
14 basis for support, as stated in ORS 757.230(1).

15 For administrative simplicity, to promote sound rate design, and to ensure that  
16 volumetric rate signals remain the same for new and existing premises customers,  
17 NW Natural is not proposing a separate class for the new premises customers, but its  
18 proposal would treat this cohort as a sub-class within the residential class and apply the  
19 New Premises Customer Charge to that sub-class.<sup>17</sup> NW Natural understands this

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<sup>14</sup> *In re Pac. Power & Light, dba PacifiCorp, Request for a General Rate Increase in the Company's Oregon Annual Revenues (Klamath River Basin Irrigator Rates)*, Docket UE 170, Order No. 06-172 at 11 (Apr. 12, 2006) (rejecting irrigators' proposed customer class in part because it was based solely on geographic location, which would lead to similar customers in different regions paying different rates despite no difference in load characteristics).

<sup>15</sup> NW Natural's Opening Brief at 29-30, 32-35.

<sup>16</sup> NW Natural/4800, Wyman-Walker/36; NW Natural/4805; Wyman-Walker/1.

<sup>17</sup> See NW Natural/1800, Wyman/79; NW Natural/3900, Wyman/25-26.

1 approach to be consistent with prior cases in which the Commission has provided  
2 different fixed charges for customers within a class using a cost of service-based  
3 distinction (for example, setting different fixed charges for multi-family versus single-  
4 family dwellings), which occurred in a recent Portland General Electric Company (“PGE”)  
5 rate case.<sup>18</sup> Moreover, this approach is consistent with the parties’ agreement *in this*  
6 **case** to adopt the Company’s proposal to set different fixed charges for multi-family  
7 versus single-family dwellings without dividing the residential class into separate rate  
8 schedules.<sup>19</sup>

9 In briefing, CUB and the Coalition cite Oregon appellate and Commission  
10 decisions concerning discrimination in rates, however, as discussed below, the decisions  
11 cited by CUB and the Coalition are not controlling for NW Natural’s proposal.

12 In its Opening Brief, CUB cites Order No. 87-402, recounting the story of the “two  
13 lumber mills.”<sup>20</sup> In that order, the Commission was addressing the broader economic  
14 circumstances of the time, and considering whether discounts or other incentives may be  
15 offered within its rate classification authority under ORS 757.230 to address challenges  
16 associated with diminished usage from large customers.<sup>21</sup> With respect to “past usage”  
17 as potential classification, the Commission considered a hypothetical discount for  
18 “incremental” usage by encouraging individual customers to consume more than they

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<sup>18</sup> *In re Portland Gen. Elec. Co., Request for a General Rate Revision*, Docket UE 394, Order No. 22-129 at 11-12, 18 (Apr. 25, 2022) (approving the Fourth Partial Stipulation, in which the Stipulating Parties agreed to bifurcate the Schedule 7 (residential) basic charge into single and multi-family, maintaining the basic charge at \$11 for single family residences and reducing the basic charge for multi-family residences to \$8, but did not create new rate schedules for single-family and multi-family customers).

<sup>19</sup> NW Natural-Staff-CUB-AWEC-Coalition/100, Kravitz, Muldoon, Jenks, Mullins, Fain/15-16.

<sup>20</sup> CUB’s Opening Brief at 28-29.

<sup>21</sup> See *In re Investigation into Transportation Rates Charged by Gas Utilities in the State of Oregon (Co-Generation Phase)*; *In re Investigation into Incentive Rates for Electric Service on the Commissioner’s Own Motion*, Dockets UG 23, UE 50, Order No. 87-402 at 5 (Mar. 31, 1987).

1 consumed in the past, and posed the question of whether a customer's past consumption  
2 should influence the rate for present consumption.<sup>22</sup> In that example, the Commission  
3 considered a temporary reduction in usage by one of two lumber mills, and application of  
4 a discount to the mill that had temporarily reduced its usage and later resumed full  
5 usage.<sup>23</sup> Under this scenario, the Commission concluded that the mills could potentially  
6 be charged different amounts for “like and contemporaneous” service, and determined  
7 that past usage was not a permissible classification.<sup>24</sup>

8 The hypothetical considered in this scenario has no direct relevance to the New  
9 Premises Customer Charge. Critically, the New Premises Customer Charge is not based  
10 on past usage—instead, it is based on the undisputed evidence in the record that new  
11 premises customers are now consuming fewer therms than the existing premises  
12 customers. That the new premises cohort consumes fewer therms is not past usage;  
13 instead it is the quantity used now (and prospectively) by this cohort of customers.  
14 Quantity used is plainly a permissible rate classification under ORS 757.230(1)—which is  
15 in fact affirmed by the same order that CUB cited containing the lumber mill example.<sup>25</sup>

16 The Coalition also cites several cases that are distinguishable on both the facts  
17 and the law. In *Kliks v. Dalles City*, the Oregon Supreme Court considered the  
18 constitutional authority of municipal water providers in rate setting, but **did not** address  
19 the Commission’s more expansive authority under ORS 757.230. The Commission  
20 addressed this distinction in Order No. 87-402, concluding that its authority allows a

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<sup>22</sup> Order No. 87-402 at 6.

<sup>23</sup> Order No. 87-402 at 7.

<sup>24</sup> Order No. 87-402 at 7, 9.

<sup>25</sup> Order No. 87-402 at 5.

1 broader variety of permissible factors to be considered than was at issue in *Kliks*.<sup>26</sup> At  
2 issue in *Kliks* was a municipal water provider establishing different service classifications  
3 for hotels and apartments.<sup>27</sup> However, in *Kliks*, the Court concluded that the municipal  
4 water provider had not provided evidence that the “material billing factors” were distinct  
5 for the apartments and hotels.<sup>28</sup> Moreover, *Kliks* affirmed that “if the material billing  
6 factors are different, a classification based upon such differences is satisfactory,” and  
7 further that “[t]hese factors may include the **quantity used**, the time of use, the manner  
8 of service, or any other factor relating to the cost of furnishing the service.”<sup>29</sup> Unlike the  
9 water provider in *Kliks*, NW Natural has provided undisputed evidence regarding  
10 differences in usage among new versus existing premises customers.

11 The Coalition also refers to *Barendse v. Knappa Water Association*, however,  
12 again, this case did not address the Commission’s authority under ORS 757.230 and  
13 instead addressed permissible rate classifications under the bylaws of a private water  
14 corporation.<sup>30</sup> Moreover, in *Barendse*, the Court concluded that in that case, “the  
15 evidence does not show that any of the ‘material billing factors’ are different” among the  
16 members that were subject to different rate classification, and “[t]he only reason given by  
17 the president of the association for the increase charged plaintiffs and three or four other

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<sup>26</sup> Order No. 87-402 at 4 (“While the constitutional standards set forth in *Kliks* are applicable to the Commissioner, the narrow scope of permissible criteria mentioned in *Kliks* is not. Unlike the Commissioner, a municipality need only consider the impact of rate classifications on other customers. The Commissioner is required by (1) ORS 756.040 to consider impacts on the general public and (2) ORS 757.230 to consider impacts on the state’s energy policy goals. As a result, a broader variety of factors may be reasonably related to the purpose for which the Commissioner classifies customers. Factors other than cost, value, and conditions of service are permissible if they are reasonably related to the Commissioner’s mandate.”).

<sup>27</sup> *Kliks v. Dalles City*, 216 Or 160, 163-64 (1959).

<sup>28</sup> *Kliks v. Dalles City*, 216 Or at 186-87.

<sup>29</sup> *Kliks v. Dalles City*, 216 Or at 186 (emphasis added).

<sup>30</sup> *Barendse v. Knappa Water Ass’n*, 260 Or 356, 357-62 (1971).

1 commercial users was that the association needed more income.”<sup>31</sup> On those facts, the  
2 Court concluded that the classification at issue was discriminatory.<sup>32</sup> These facts are  
3 quite obviously distinguishable from the Company’s proposal, which is based on the  
4 undisputed fact that the new premises cohort is using fewer therms.

5 b. Without rate intervention, the new premises cohort will not pay their  
6 cost to serve.

7 The Coalition argues that the Company’s statement that “the new premises cohort  
8 does not cover its cost to serve” is inconsistent with the Company’s statement that the  
9 cost to serve new and existing premises customers is the same.<sup>33</sup> The Coalition misses  
10 the point. Because there is a significant difference in usage among new premises and  
11 existing premises customers, if the cost to serve is the same, there necessarily is a  
12 **shortfall** in recovering the cost to serve the new premises customers without rate design  
13 intervention.<sup>34</sup> The Coalition conflates the Company’s argument that the cost to serve  
14 new premises and existing premises is nearly the same with the Company’s argument  
15 that without rate design intervention the Company will not **cover** its cost to serve new  
16 premises customers (i.e., will not collect revenues from new premises customers needed  
17 to cover their full cost to serve through rate design, and will instead collect the revenue  
18 shortfall needed to cover the full cost to serve new premises customers through an intra-  
19 class subsidy that flows to these customers from existing premises customers).<sup>35</sup>

20 Additionally, the Coalition argues that the Company’s claim that the “the new  
21 premises cohort does not cover its cost to serve” is unsupported because NW Natural did

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<sup>31</sup> *Barendse v. Knappa Water Ass’n*, 260 Or at 365.

<sup>32</sup> *Barendse v. Knappa Water Ass’n*, 260 Or at 366.

<sup>33</sup> Coalition’s Closing Brief at 14.

<sup>34</sup> NW Natural/4800, Wyman-Walker/19.

<sup>35</sup> NW Natural/4800, Wyman-Walker/18.

1 not address this in its long-run incremental cost (“LRIC”) study.<sup>36</sup> While it is true that the  
2 Company did not provide analysis of this issue in the LRIC study, specifically because  
3 the Company did not propose to create an entirely new class for the new premises  
4 customers, the Company has provided evidence in the record in this proceeding to  
5 support its statement that it is not recovering the cost of service from new premises  
6 customers.<sup>37</sup>

7 The Coalition also claims that there is only a “small” difference in energy usage  
8 between new premises and existing premises customers.<sup>38</sup> Not so. The difference is  
9 **210.8 therms**, which is nearly one third of the existing premises customers’ total usage.<sup>39</sup>  
10 This is a meaningful difference and warrants the Commission’s attention. The Coalition  
11 further argues that the difference in usage results in a *de minimis* intra-class subsidy that  
12 does not warrant intervention.<sup>40</sup> As the Company explained in its Opening Brief, the  
13 Company calculated the impact associated with making no rate design change under its  
14 initially filed revenue requirement and determined that it would under-collect about \$612  
15 thousand from new premises cohort customers in the Test Year and reaching \$1.2 million  
16 using Test Year end of period customer additions on an annualized basis,<sup>41</sup> which will  
17 instead be collected through the volumetric base margin rate from all (existing premises

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<sup>36</sup> Coalition’s Closing Brief at 14.

<sup>37</sup> NW Natural/1800, Wyman/55-59, 77-79; NW Natural/3900, Wyman/22-23, 34-46; NW Natural/4800, Wyman-Walker/21-50.

<sup>38</sup> Coalition’s Closing Brief at 14.

<sup>39</sup> NW Natural/1800, Wyman/77; NW Natural/3900, Wyman/36.

<sup>40</sup> Coalition’s Opening Brief at 21-22; Coalition’s Closing Brief at 12, 14, 17, 19.

<sup>41</sup> Staff and the Coalition suggest that this \$1.2 million figure is insignificant or *de minimis*, and that the revenues that would be associated with New Premises customers is similarly insignificant, making up 0.488 percent of total residential revenue. Staff Opening Brief at 21; Coalition’s Opening Brief at 21-22. The Company disagrees. See NW Natural/3900, Wyman/44-45, 67-69; NW Natural/4800, Wyman-Walker/47-48, 50. The Coalition itself has devoted dozens of pages of testimony advocating for adjustments on the order of \$721 thousand (0.153 percent of total residential revenue) and \$1.7 million (0.361 percent) and lower, even down to under \$6 thousand (0.001 percent).

1 and new premises) customers with higher users paying more—plainly resulting in intra-  
2 class subsidization on a magnitude higher than many of the rate adjustments each party  
3 has proffered in this proceeding.<sup>42</sup> Without rate intervention, this subsidy will only  
4 continue to perpetuate and grow in the future and, as more new customers connect to the  
5 system, there will be even more upward pressure on the volumetric rate for the residential  
6 rate class in future rate proceedings.<sup>43</sup>

7 c. Contrary to Staff's claims, Staff's position concerning the decoupling  
8 mechanism in docket UG 435 supports rate intervention to address  
9 the intra-class subsidy.

10 In its Closing Brief, Staff argues that the Company's references to Michelle Scala's  
11 testimony in docket UG 435 are "misplaced," because Ms. Scala's testimony expressed  
12 concern about NW Natural overestimating usage and potentially leading to an inflated  
13 decoupling deferral balance.<sup>44</sup> Staff further argues that part of Ms. Scala's point was that  
14 "those consuming the most gas would pay the most for this artificially large deferral."<sup>45</sup>  
15 There, Ms. Scala's testimony clearly expresses a concern for potential intra-class  
16 subsidization—that those consuming the most would pay the most—which is precisely  
17 the point that the Company is trying to address with its proposals for the New Premises  
18 Customer Charge and decoupling mechanism baseline bifurcation. The Company  
19 explained in its Opening Brief that it is unprincipled and inconsistent with basic standards  
20 of ratemaking to address the problem only in the decoupling mechanism without also  
21 making the change in rate design.<sup>46</sup>

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<sup>42</sup> NW Natural's Opening Brief at 36; NW Natural/3900, Wyman/39, 44-45; NW Natural/4800, Wyman-Walker/47-48, 50.

<sup>43</sup> NW Natural/3900, Wyman/68.

<sup>44</sup> Staff's Closing Brief at 6.

<sup>45</sup> Staff's Closing Brief at 6.

<sup>46</sup> NW Natural's Opening Brief at 35-37.

1 d. By retaining the same volumetric rate, new premises and existing  
2 premises customers will receive the same price signals and  
3 incentives to conserve energy.

4 In its Opening Brief, the Coalition argues that the shift from volumetric to fixed  
5 charge recovery will reduce the incentive for conservation.<sup>47</sup> To be clear, the Company  
6 is not proposing to modify the volumetric rate for the new premises cohort in connection  
7 with the higher fixed charge for the New Premises Customer Charge.<sup>48</sup> Instead, the New  
8 Premises Customer Charge is proposed because the new premises cohort customers  
9 are not currently paying their full cost of service. The volumetric price will be the same  
10 for existing and new premises customers, and thus the price signals for conservation will  
11 remain the same.<sup>49</sup>

12 Staff further argues the Company fails to address the very significant concern that  
13 the New Premises Customer Charge disincentivizes energy efficiency, and the Coalition  
14 makes a similar claim.<sup>50</sup> This is incorrect. The Company does in fact address these  
15 concerns, and in particular, the Coalition's charge that the New Premises Customer  
16 Charge could undercut federal energy incentive programs under the Inflation Reduction

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<sup>47</sup> Coalition's Opening Brief at 20-21.

<sup>48</sup> NW Natural's Opening Brief at 17-18.

<sup>49</sup> Staff argues the New Premises Customer Charge would have far-reaching impacts on the balance of fixed vs. volumetric cost recover going forward, and that "[a]ccording to the Company's estimates of average bills at their proposed rates, roughly 10 percent of revenues would be recovered through the fixed charge for existing premises customers. For new premises customers, this amount would be nearly 40 percent." Staff's Opening Brief at 24-25. The Coalition also cites Staff's figures in its Opening Brief. Coalition's Opening Brief at 21. However, Staff's figures are incorrect. Based on the incremental revenue requirement settled in the Second Stipulation, if the Company's New Premises Customer Charge is approved, the Company would collect about 32 percent of the annual rate for new premises customers on the fixed charge. NW Natural/4800, Wyman-Walker/42. Based on these figures, Staff also argues that this is a dramatic change in cost recovery and business risk faced by the Company. Staff's Opening Brief at 25. However, as the Company noted in testimony, Staff provides no citation or support for this conclusion. NW Natural/4800, Wyman-Walker/42.

<sup>50</sup> Staff's Opening Brief at 23-34; Coalition's Closing Brief at 17.

1 Act (“IRA”).<sup>51</sup> The Company further addresses energy efficiency of new premises relative  
2 to existing premises in testimony.<sup>52</sup>

3 e. Renters will not be disproportionately impacted by the New Premises  
4 Customer Charge.

5 Staff and the Coalition argue that the New Premises Customer Charge is worse  
6 for renters because they would be “faced with an exceptionally high and discriminatory  
7 customer charge” while landlords and apartment owners “pocket the generous LEA  
8 without passing any of the savings onto their tenants.”<sup>53</sup> This is incorrect as apartments  
9 are nearly entirely served under Schedule 3 Basic Firm Sales Service Non-Residential  
10 (RS 3 Commercial) and Schedule 4 Residential Multi-Family Service (RS 4 Multi-  
11 Family).<sup>54</sup> The Company has been clear with parties that not only do premises have to be  
12 connected to the system, they must also be individually metered for the New Premises  
13 Customer Charge to be applicable.<sup>55</sup> Apartment buildings, including apartment buildings  
14 that are fully or partially affordable (in furtherance of the statewide housing goal of  
15 producing affordable housing), that are served under a master meter on a commercial  
16 rate schedule would not be assessed the New Premises Customer Charge.<sup>56</sup> NW Natural  
17 surveyed apartment communities and developments under Home Forward, Portland’s

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<sup>51</sup> NW Natural/3900, Wyman/66-67 (“The IRA is targeted to eligible “homeowners, including renters for certain expenditures, who purchase energy and other efficient appliances and products,” whether electric or gas. The program is not targeted to new home buyers who are purchasing a home that already has high-efficient brand-new appliances, doors, and windows. For natural gas conversions, the Company’s LEA proposal, as discussed in NW Natural/4000, Therrien, provides for a higher construction allowance for lower expected natural gas usage, therefore incentivizing conversion applicants to install low use natural gas appliances while taking advantage of IRA tax credits for space and/or water heating equipment.”).

<sup>52</sup> NW Natural/3900, Wyman/34, 64-65; NW Natural/4800, Wyman-Walker/46-47.

<sup>53</sup> Staff’s Opening Brief at 24; Coalition’s Opening Brief at 23; Coalition’s Closing Brief at 18-19; Staff/4100, Shierman/27-28.

<sup>54</sup> NW Natural/1800, Wyman/68-69; NW Natural/3900, Wyman/72-75; NW Natural/4800, Wyman-Walker/29-30, 44.

<sup>55</sup> NW Natural/4800, Wyman-Walker/29.

<sup>56</sup> NW Natural/4800, Wyman-Walker/29.

1 housing authority, and found that of 49 communities examined, totaling 4,701 housing  
2 units, just 213 units (4.5 percent) are served on an individual meter under Schedule 2  
3 Residential Sales Service (RS 2 Residential).<sup>57</sup> The remaining 4,488 (95.5 percent) are  
4 served under a master meter on the RS 3 Commercial rate schedule.<sup>58</sup> Accordingly,  
5 renters will not be disproportionately impacted by the New Premises Customer Charge.

6        Additionally, as discussed below, the LEA and the New Premises Customer  
7 Charge are not intended to offset each other, so Staff's claim that landlords will benefit  
8 while renters pay a higher charge is entirely incorrect. These are independent proposals,  
9 and the Company has further demonstrated that on average, due to lower usage, the new  
10 premises customers will be paying less than the existing premises cohort.<sup>59</sup> On this point,  
11 the Company explained in its Opening Brief that Staff, CUB, and the Coalition have  
12 presented misleading analysis regarding the bill impacts associated with the New  
13 Premises Customer Charge.<sup>60</sup> In particular, Staff's analysis ignores the differences in  
14 usage between the existing premises and new premises cohorts.<sup>61</sup> NW Natural has  
15 demonstrated that typical new premises customer using 449.4 therms will pay 11.8  
16 percent *less* annually on a total billing basis compared to a typical existing premises  
17 customer using 660.2 therms.<sup>62</sup> The Company also demonstrated that for lower income  
18 customers, at every low income bill discount program tier winter bills would be *lower* for  
19 new premises customers relative to existing premises customers based on average

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<sup>57</sup> NW Natural/4800, Wyman-Walker/29-30.

<sup>58</sup> NW Natural/4800, Wyman-Walker/30.

<sup>59</sup> NW Natural/4800, Wyman-Walker/46.

<sup>60</sup> NW Natural's Opening Brief at 26-30.

<sup>61</sup> Staff's Opening Brief at 22-23.

<sup>62</sup> NW Natural's Opening Brief at 26-30; NW Natural/4800, Wyman-Walker/46; NW Natural/4805, Wyman-Walker/1.

1 annual anticipated weather normalized usage.<sup>63</sup> While Staff and CUB may have  
2 presented an *equal* rate structure, considering the usage disparity and resulting intra-  
3 class subsidization, it is not an *equitable* rate structure.<sup>64</sup>

4 f. The New Premises Customer Charge and LEA proposals are  
5 independent.

6 The Coalition argues that the New Premises Customer Charge is unreasonable  
7 and unfair because when coupled with the Company's LEA proposal it would subsidize  
8 growth but with high expense for a new customer, and further that the New Premises  
9 Customer Charge is deceptive and intended to drive higher LEA allowances.<sup>65</sup> Staff  
10 makes similar arguments in its Closing Brief.<sup>66</sup> These arguments are incorrect for several  
11 reasons.

12 *First*, the Coalition's characterization of the charge as "high" is incorrect, and fails  
13 to account for lower average usage for the new premises cohort. Due to lower usage,  
14 the evidence in the record demonstrates that the average customer bill for a new premises  
15 customer **will still be lower** than the average existing premises user.<sup>67</sup> In fact, a new  
16 premises customer would need to have a 26.7 percent higher usage level (588.7 therms)  
17 to have higher winter bills compared to an existing premises customer.<sup>68</sup> To the extent  
18 that the new premises customer may also be a low-income customer, they may also be

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<sup>63</sup> NW Natural's Opening Brief at 26-30; NW Natural/4800, Wyman-Walker/27-28.

<sup>64</sup> NW Natural's Opening Brief at 30-35.

<sup>65</sup> Coalition's Opening Brief at 16-18, 20, 23-24; Coalition's Closing Brief at 18.

<sup>66</sup> Staff's Closing Brief at 6-7. Staff also claims that "one effect of the New Premises Customer Charges is to juice the Company's" LEA. Staff's Opening Brief at 24. The Company addressed this argument thoroughly in its Opening Brief. See NW Natural's Opening Brief at 37-38; see also NW Natural/3900, Wyman/76-77; NW Natural/4800, Wyman-Walker/40-41.

<sup>67</sup> NW Natural/4800, Wyman-Walker/46 ("If a current customer moves from an Existing Premises into a New Premises, their total expected bill would be a reduction of 11.8 percent under the Second Stipulation revenue requirement as shown in Exhibit NW Natural/4805, Wyman-Walker[1].").

<sup>68</sup> NW Natural/4800, Wyman-Walker/30.

1 eligible to participate in the bill discount program, which would provide further reductions  
2 on the total bill. The Coalition’s argument on this point simply ignores the likely usage for  
3 the new premises customer, even though the lower overall usage for this cohort was the  
4 basis for the Coalition joining Staff’s proposal on decoupling.

5         *Second*, the parties are incorrect to infer nefarious intent with the LEA and New  
6 Premises Customer Charge. Contrary to these allegations, there is no “bait-and-switch.”  
7 The Company’s proposals are economically justified, grounded in traditional ratemaking  
8 principles, and are not deceptive. Importantly, the Company has demonstrated that given  
9 lower usage by the new premises cohort, overall bills will not be higher even accounting  
10 for the New Premises Customer Charge. Further, as NW Natural explained in its  
11 testimony, natural gas is a fuel of choice, and “natural gas utilities have always faced  
12 acute competitive pressures compared to electric utilities.”<sup>69</sup> To address these  
13 competitive pressures, the Company is highly motivated to continue to provide  
14 competitive service offerings. It would not be in the Company’s interest to propose rate  
15 design that will drive customers from the system, and the parties’ arguments on this point  
16 fail to account for NW Natural’s own sensitivity to these competitive pressures.

17         *Finally*, the Coalition ignores the fact that the New Premises Customer Charge and  
18 the LEA proposal are independent proposals.<sup>70</sup> While the New Premises Customer  
19 Charge is an input to the LEA model, it is just one among various inputs. Even if the  
20 Commission were to decline to adopt the Company’s New Premises Customer Charge—  
21 or to set it at a slightly lower value than what the Company has proposed, the Company

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<sup>69</sup> NW Natural/2200, Kravitz/37; NW Natural/4400, Kravitz/28.

<sup>70</sup> Coalition’s Closing Brief at 18-19.

1 maintains that the LEA model presented in this case is responsive to the Commission’s  
2 direction in Order No. 22-388. Additionally, if the Commission were to decline to adopt  
3 the LEA proposal in this case, it could and should still adopt the New Premises Customer  
4 Charge. These proposals are independent, and the Commission should consider them  
5 as such.

6 **B. Line Extension Allowance**

7 1. *The policy arguments raised by parties do not support eliminating or*  
8 *phasing out the LEA.*

9 a. CUB and the Coalition erroneously rely on the record in docket UG  
10 435 to support their policy arguments in this proceeding.

11 The Coalition argues that in docket UG 435, the Commission required a phased  
12 reduction of the LEA in response to evidence showing that residential customer growth  
13 no longer provided a financial benefit to ratepayers once the costs to decarbonize are  
14 included.<sup>71</sup> This argument ignores a key detail central to the resolution of the LEA issue  
15 in docket UG 435—in that case, and on that record, NW Natural’s LEA **did not include**  
16 **the costs to decarbonize.**<sup>72</sup> Moreover, the Commission explicitly left open the possibility  
17 of NW Natural filing an LEA that accounted for Climate Protection Program (“CPP”)  
18 compliance costs.<sup>73</sup> That is exactly what the Company has done in this case. The parties  
19 cannot and should not rely on the record in docket UG 435 as controlling, when in fact an  
20 entirely different record has been developed in this case pursuant to directives from the  
21 Commission.

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<sup>71</sup> Coalition’s Opening Brief at 5.

<sup>72</sup> *In re Nw. Nat. Gas Co., dba NW Natural, Request for a General Rate Revision*, Docket UG 435, Order No. 22-388 at 48 (Oct. 24, 2022).

<sup>73</sup> Order No. 22-388 at 52.

1 Similarly, CUB argues that the Company’s proposal is divorced from the  
2 Commission’s direction in docket UG 435 because the LEA does not follow the downward  
3 trajectory set out in Order No. 22-388, and the LEA for the lowest-use tier is increased  
4 from the current LEA.<sup>74</sup> However, in Order No. 22-388, the Commission provided  
5 direction for the Company to follow if it sought a new LEA, but was not prescriptive as to  
6 trajectory or to total amount of the LEA.<sup>75</sup> That is, the LEA amounts included in Order  
7 No. 22-388 were not set forth as maximum and cannot reasonably be interpreted as such.

8 CUB also cites Order No. 22-388 for the proposition that national and state policies  
9 have shifted to incentivize clean energy, and the passage quoted by CUB refers to the  
10 CPP and activities of municipalities and other jurisdictions in potentially enacting  
11 limitations on natural gas.<sup>76</sup> On this point, the Company expects that the Oregon  
12 Department of Environmental Quality’s (“ODEQ”) new GHG emissions reductions rules  
13 will provide guidance on decarbonizing natural gas system, but fundamentally disagrees  
14 that this will be accomplished through limitations on growth. Moreover, it is wholly  
15 inappropriate to pre-judge NW Natural’s compliance with rules that have not yet even  
16 been issued, and before NW Natural has been afforded an opportunity to present  
17 compliance plans. Concerning the reference to limitations on natural gas from local  
18 jurisdictions, it is also critical to note that this concern is not present in this case following  
19 the Ninth Circuit decision that reversed the gas ban for the City of Berkley.

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<sup>74</sup> CUB’s Opening Brief at 22-23.

<sup>75</sup> Order No. 22-388 at 52.

<sup>76</sup> CUB’s Opening Brief at 26, n.102.

1           b.     The parties' criticisms of the Company's plans for compliance with  
2                 GHG emissions reduction regulations are misplaced.

3           In its opposition to the Company's LEA proposal, the Coalition argues that the  
4     Company does not have a realistic plan for meeting statewide GHG emissions targets,  
5     referencing the Commission's non-acknowledgement of long-term action items in the  
6     Company's 2022 IRP.<sup>77</sup> This argument is misguided for two reasons. First, the Coalition  
7     is relying on the 2022 IRP criticisms regarding Community Climate Investment ("CCI")  
8     credits that the Company has since addressed in the LEA modeling assumptions, in that  
9     NW Natural is committed to least-cost, least-risk compliance and the model contemplates  
10    that NW Natural will procure as many CCIs as possible.<sup>78</sup> Second, it is not fair or  
11    appropriate to criticize NW Natural for not having a plan for rules that are not yet finalized.  
12    The Company's LEA proposal offered in this case reflects an evolving landscape and is  
13    designed to create a pathway for growth for low-use customers, and is based on an  
14    adaptable model that can be updated when there is greater certainty for inputs.<sup>79</sup>

15           The Coalition further states that the Company's assumptions are speculative and  
16    erroneous,<sup>80</sup> but it is important to recognize here that just because the Company has  
17    provided estimates that reflect some on-going level of uncertainty, it does not make them  
18    erroneous—it merely makes them estimates, which is what forecasts necessarily rely  
19    on.<sup>81</sup> The Coalition also argues that NW Natural assumes that gas demand will continue  
20    to grow at "0.15 percent annually for the next 20 years," which conflicts with projections

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<sup>77</sup> Coalition's Opening Brief at 11.

<sup>78</sup> NW Natural/2000, Kravitz-Therrien/25.

<sup>79</sup> NW Natural/4000, Therrien/7.

<sup>80</sup> Coalition's Opening Brief at 6.

<sup>81</sup> NW Natural/4000, Therrien/10.

1 that gas demand will need to be reduced.<sup>82</sup> However in this criticism, the Coalition ignores  
2 the most compelling aspect of the Company’s LEA proposal—that it sets a higher value  
3 for customers that will have lower throughput on the system. Parties have not seriously  
4 engaged with the potential for growth among lower-usage customers to provide on-going  
5 system benefits, and instead take an overly pessimistic view that these customers will  
6 instead depart the system and create stranded assets. Yet, on the record in this case,  
7 no party has provided any data to support such an assumption.

8 c. Docket UG 461 and decisions from other states are not persuasive.

9 In briefing, the parties reprise their arguments from testimony that the Commission  
10 should consider the phased elimination of the line extension allowance from the Avista  
11 general rate case proceeding, Docket UG 461, or decisions from other jurisdictions.<sup>83</sup>  
12 These decisions are not controlling for the Commission in this case, and are of limited  
13 relevance. The phase down of Avista’s LEA in docket UG 461 was the product of  
14 settlement, whereby many issues, including the overall revenue requirement  
15 determination, were settled, and accordingly, was not the product of a Commission order  
16 in a fully-litigated case.<sup>84</sup> Prior settlements are not precedent that is binding on the  
17 Commission, which Staff also emphasized in its Opening Brief.<sup>85</sup> Additionally, as the  
18 Company explained in its Opening Brief, the decisions made in other jurisdictions are not

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<sup>82</sup> Coalition’s Opening Brief at 12.

<sup>83</sup> Coalition’s Opening Brief at 8-9.

<sup>84</sup> *In re Avista Corp. dba Avista Utilities, Request for a General Rate Revision*, Docket UG 461, Order No. 23-384 at 9 (Oct. 26, 2023).

<sup>85</sup> Staff acknowledges (in the context of the Renewable Adjustment Clause), that the Commission “typically does not treat orders approving stipulations as ‘precedent’ for further Commission decisions.” Staff’s Opening Brief at 6.

1 binding on this Commission, and are of limited relevance as persuasive materials in light  
2 of the differing legal frameworks underpinning those decisions.<sup>86</sup>

3 d. The LEA is not a subsidy.

4 Contrary to the parties' suggestions that the LEA is a "subsidy," in fact, the goal of  
5 a line extension allowances is to ensure equity between existing and new customers.<sup>87</sup>  
6 To this end, the LEA still serves an important role in ensuring that new customers can  
7 afford to join the gas system, making natural gas accessible to all customers, and not just  
8 the wealthy, and preserving customers' choice. Adding new customers to the system  
9 continues to provide benefits to NW Natural's existing customers by spreading out the  
10 costs of non-growth capital investments. The Company's LEA proposal in this case  
11 provides the opportunity for customers to join the gas system—including those that may  
12 otherwise not be able to afford to, absent the LEA—while also creating a pathway for the  
13 Company to attract low-usage customers. Both new and existing customers benefit from  
14 the LEA, and the Company's approach will provide fuel choice and allow the Company's  
15 customers to enjoy the resiliency benefits of the gas system.<sup>88</sup>

16 2. *The Company's LEA model inputs are based on the best information*  
17 *available now, and the model's structure is flexible to respond to changes*  
18 *in these inputs.*

19 Staff, CUB, and the Coalition raise various arguments in opposition to the  
20 Company's modeling of the proposed LEA.<sup>89</sup> However, the Company provided  
21 compelling evidence supporting its assumptions for each input in the LEA model. The

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<sup>86</sup> NW Natural's Opening Brief at 58-59.

<sup>87</sup> NW Natural's Opening Brief at 44-45.

<sup>88</sup> NW Natural/4000, Therrien/23-24; NW Natural/4900, Therrien/17.

<sup>89</sup> Staff's Opening Brief at 10-17; Staff's Closing Brief at 4-6; CUB's Opening Brief at 20-27; CUB's Closing Brief at 21-24; Coalition's Opening Brief at 1-19; Coalition's Closing Brief at 1-11.

1 Company's LEA model reasonably includes a 25-year payback period based on average  
2 equipment life, the RNG pricing and GHG compliance costs based on best available  
3 information, estimated CPP revenues, the New Premises Customer Charge, and non-  
4 growth capital expenditures, and addresses the periods during which a home may be  
5 unoccupied, and the tiered approach provides the most flexibility for the Company as it  
6 needs to update the model to reflect evolving inputs.

7 a. The 25-year payback period reflects the minimum amount of time  
8 that LEA recipients are likely to stay connected to the gas system.

9 Staff, CUB, and the Coalition take issue with the 25-year payback period.<sup>90</sup> In its  
10 Opening Brief, the Company explained that the 25-year term is a reduction from the 30-  
11 year term in the prior model and provided responses to parties' critiques.<sup>91</sup> In their  
12 arguments in opposition to the 25-year term, neither Staff nor intervenors provided  
13 anything more than assumptions that customers are actually leaving the system (when  
14 they are not) and did not rebut the Company's clear evidence to the contrary of customer  
15 growth.

16 Staff indicates that it believes the 25-year period creates too great of risk of  
17 stranded assets,<sup>92</sup> and CUB and the Coalition echo this criticism, maintaining that the  
18 Commission's ruling in docket UG 435 signals that the Company must consider evolving  
19 customer preferences and changes to the natural gas regulatory environment.<sup>93</sup> But as  
20 the Company explained in its Opening Brief, none of the *potential* reasons that a customer  
21 *could* consider leaving the gas system actually demonstrate a "trend" of customers

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<sup>90</sup> Staff's Opening Brief at 13; CUB's Closing Brief at 23-24; Coalition's Opening Brief at 16; Coalition's Closing Brief at 9-10.

<sup>91</sup> NW Natural's Opening Brief at 63-67.

<sup>92</sup> Staff's Opening Brief at 13.

<sup>93</sup> CUB's Opening Brief at 26 n.102; Coalition's Closing Brief at 9.

1 leaving the system.<sup>94</sup> In fact, the Company provided evidence of the Company's steady  
2 increase in customers since 2017, which demonstrates that customers are not leaving  
3 the system for the reasons raised by CUB or the Coalition—and that were raised in the  
4 last case as well—and instead, a growing number of customers are seeking to obtain  
5 natural gas for specific uses, such as gas ranges.<sup>95</sup>

6 Additionally, CUB has not demonstrated that customers will leave the system at  
7 all, much less at a rate of one percent per year. As NW Natural explained in its Opening  
8 Brief, CUB did not provide support for the assumptions behind its attrition calculation  
9 except to say that it illustrates attrition based on “fundamental economics.”<sup>96</sup> In other  
10 words, CUB has provided no support for its attrition assumption, and there is no evidence  
11 in the record to support such an assumption apart from CUB's claims that customers *may*  
12 leave the system in response to any of CUB's specified reasons.<sup>97</sup> Further, the Coalition  
13 provides no evidence to support its proffered reasons that customers will leave the  
14 system. These arguments are unsupported and unpersuasive.

15 CUB additionally argues that the Company's 25-year model does not reflect the  
16 lifespan of a gas furnace or the depreciation costs that customers will be responsible for  
17 after the 25-year payback period.<sup>98</sup> Regarding the lifespan of a gas furnace, the Company  
18 provided testimony indicating that the average life of a gas furnace is 22.5 years, which  
19 is close to the conservative 25-year term proposed by the Company.<sup>99</sup> Regarding

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<sup>94</sup> NW Natural's Opening Brief at 65.

<sup>95</sup> NW Natural/4000, Therrien/23.

<sup>96</sup> NW Natural's Opening Brief at 56-57; NW Natural/4903, Therrien, CUB's Response to NW Natural Data Request No. 7.

<sup>97</sup> NW Natural/4900, Therrien/14.

<sup>98</sup> CUB's Closing Brief at 23-24.

<sup>99</sup> NW Natural/4000, Therrien/13.

1 depreciation cost, CUB argues that the LEA fails to account for the 60-year lifespan of a  
2 service line extension, because customers will continue to pay for depreciation costs and  
3 return on investments “for the next 40 years” after the 25-year payback period.<sup>100</sup> But  
4 CUB confuses the depreciable life of an asset, e.g., the service line’s 60-year life, with  
5 the 25-year Discounted Cash Flow (“DCF”) analysis.<sup>101</sup> Costs are not stranded if they  
6 have been paid for.<sup>102</sup> The fact that there is a timing difference between cost recovery  
7 (proved through the LEA DCF analysis) and depreciation (used for general rate-making)  
8 does not mean that there are stranded costs.<sup>103</sup> As such, CUB’s criticism lacks merit.

9 Finally, the Coalition argues that there is a “high level of uncertainty in the  
10 parameters modeled in NW Natural’s LEA proposal” which necessitates a shorter  
11 payback period to ensure prudent investments.<sup>104</sup> In particular, the Coalition argues that  
12 “[a] shorter payback period limits the risk of overestimating the benefits of new customer  
13 additions”<sup>105</sup> and that a ten-year payback period is more reasonable “given the  
14 uncertainty of assumptions in the Company’s model and its decarbonization strategy.”<sup>106</sup>  
15 Here, the Coalition ignores the simple fact that there is always some level of uncertainty  
16 in a forecast. However, as discussed above, the inputs that the Coalition criticizes as  
17 “uncertain” are the best available inputs that the Company has now, and importantly, the  
18 flexibility in the proposed LEA model will permit the Company to update the LEA if there  
19 are changes to its inputs.

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<sup>100</sup> CUB’s Closing Brief at 23-24.

<sup>101</sup> NW Natural/4000, Therrien/35.

<sup>102</sup> NW Natural/4000, Therrien/35.

<sup>103</sup> NW Natural/4000, Therrien/35.

<sup>104</sup> Coalition’s Closing Brief at 9.

<sup>105</sup> Coalition’s Closing Brief at 9.

<sup>106</sup> Coalition’s Opening Brief at 18.

1           b.     The RNG pricing and GHG compliance costs in the LEA model are  
2                 appropriate to reflect NW Natural's current targets.

3           Staff, CUB, and the Coalition also oppose the Company's modeling inputs for GHG  
4 compliance costs. Staff and the Coalition argue that the Company's LEA model uses an  
5 RNG price input that is too low.<sup>107</sup> Staff specifically takes issue with the Company's use  
6 of the price of RNG that was modeled in its most recent IRP<sup>108</sup> and instead proposes a  
7 compliance cost of \$30/MMBtu."<sup>109</sup> CUB raises similar arguments, and further argues  
8 that the LEA does not adequately address CPP compliance costs.<sup>110</sup>

9           However, the Company demonstrated the inclusion of GHG compliance costs in  
10 its model and the reasonableness of the cost of RNG included in its analysis. First, the  
11 proposed DCF model is calculated on a real dollar basis (i.e., adjusted for inflation; a  
12 constant dollar basis).<sup>111</sup> Second, the Company modeled compliance costs using a proxy  
13 for CPP compliance cost based on the most expensive compliance credits currently  
14 available in any state.<sup>112</sup> Holding the cost of compliance with future Oregon GHG  
15 regulations (RNG prices) constant at a unit price considerably higher than previous  
16 Company analyses is conservative and appropriate.<sup>113</sup> While it is difficult to estimate the  
17 cost of a substitute and emerging commodity such as RNG, the Company used a higher  
18 cost of RNG than the costs that were anticipated in the Company's last IRP, and did not  
19 include the costs for potential lower cost decarbonization solutions such as energy

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<sup>107</sup> Staff's Opening Brief at 14; Staff's Closing Brief at 4-5.

<sup>108</sup> Staff's Closing Brief at 4; Coalition's Closing Brief at 8.

<sup>109</sup> Staff's Opening Brief at 14.

<sup>110</sup> CUB's Opening Brief at 20.

<sup>111</sup> NW Natural/4000, Therrien/14.

<sup>112</sup> NW Natural/2000, Kravitz-Therrien/17.

<sup>113</sup> NW Natural/4000, Therrien/14.

1 efficiency and industrial decarbonization.<sup>114</sup> Moreover, the Company updated its  
2 estimated RNG costs in Reply Testimony in response to Staff’s concerns.<sup>115</sup>

3 The Coalition also questions NW Natural’s use of RNG in the model rather than  
4 synthetic gas or hydrogen, arguing that this is inconsistent with the Company’s 2022  
5 IRP.<sup>116</sup> Although the Coalition is correct that the Company’s 2022 IRP included synthetic  
6 gas and hydrogen, as indicated in Surrebuttal Testimony, the Company’s expert witness  
7 found that RNG is the leading resource for the Company’s GHG compliance, and as such,  
8 represents the best information available today to model GHG compliance.<sup>117</sup> Moreover,  
9 in its order for the 2022 IRP, the Commission specifically questioned the availability and  
10 pricing of other decarbonized fuels and stated that “NW Natural’s assumed costs for  
11 *synthetic methane* appear very optimistic.”<sup>118</sup> To the extent that the uncertainty regarding  
12 these costs is reduced in the future, NW Natural can update its LEA to reflect these cost  
13 inputs.

14 Finally, CUB argues that in docket UG 435, the Commission found that the LEA  
15 did not properly model CPP compliance costs, and that the Company has not offered  
16 evidence in this proceeding to address those concerns.<sup>119</sup> This charge is wholly without  
17 merit. To the extent that CUB may be seeking actual compliance costs with a program  
18 that is not yet finalized, that is not a realistic expectation. However, based on the  
19 Company’s commitment to pursue least-cost, least-risk compliance with future GHG

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<sup>114</sup> NW Natural/1900, Therrien/19.

<sup>115</sup> NW Natural/4000, Therrien/6.

<sup>116</sup> Coalition’s Closing Brief at 6.

<sup>117</sup> NW Natural/4900, Therrien/20.

<sup>118</sup> *In re Nw. Nat. Gas Co. dba NW Natural, 2022 Integrated Resource Plan*, Docket LC 79, Order No. 23-281 at 9 (Aug. 2, 2023) (emphasis added).

<sup>119</sup> CUB’s Opening Brief at 23.

1 emissions reductions, the Company has provided estimates of compliance costs based  
2 on the best information available at this time.

3 c. The Company's proposed CPP revenues line item is appropriate.

4 Staff argues that the "CPP revenues line item was a gross overestimation of  
5 revenues brought in by a new residential customer and resulted in an optimal LEA  
6 estimate higher than what would be obtained if a more realistic assumption was used."<sup>120</sup>  
7 The Company explained in its Reply Testimony that one of the assumptions in the  
8 Company's proposed LEA DCF model is that new customers would pay for future Oregon  
9 GHG compliance costs, and the costs charged to new customers follow the trajectory of  
10 the decreasing emissions cap.<sup>121</sup> Staff asserts that this assumption is a "gross  
11 overestimation of revenues" yet offered no alternative assumption or basis for changing  
12 the assumption other than the potential for future rate design changes.<sup>122</sup> Without any  
13 supporting evidence to the contrary, the assumed new customer revenue assumption  
14 should remain unchanged.<sup>123</sup>

15 d. The New Premises Customer Charge should be modeled as  
16 proposed.

17 Staff takes issue with the Company's LEA model assumption of a future revenue  
18 stream from the proposed New Premises Customer Charge,<sup>124</sup> and both Staff and the  
19 Coalition argue that removing the New Premises Customer Charge from the LEA model,  
20 along with other adjustments, results in a negative LEA.<sup>125</sup> However, the Company

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<sup>120</sup> Staff's Opening Brief at 15.

<sup>121</sup> NW Natural/4000, Therrien/15.

<sup>122</sup> NW Natural/4000, Therrien/15.

<sup>123</sup> NW Natural/4000, Therrien/15; Staff's Opening Brief at 14-15 (Staff assumed no change to this assumption for purposes of its own DCF calculation).

<sup>124</sup> Staff's Closing Brief at 4.

<sup>125</sup> Coalition's Closing Brief at 11.

1 addressed this issue in the Reply Testimony of Robert J. Wyman, explaining that,  
2 regardless of the outcome of the LEA, without rate design intervention for new premises  
3 customers, the new premises cohort **does not cover its cost to serve** even with the  
4 bifurcation of the decoupling mechanism baseline.<sup>126</sup> This is precisely why the LEA model  
5 indicates new premises customers are uneconomical without the higher New Premises  
6 Customer Charge or a commensurately higher volumetric rate, and without intervention,  
7 will continue to be subsidized by existing customers.<sup>127</sup> Finally, if the Company is  
8 recovering its cost to serve new premises customers at a rate necessary to mitigate intra-  
9 class subsidization through its decoupling mechanism and not the New Premises  
10 Customer Charge as incorrectly asserted by Staff and the Coalition,<sup>128</sup> then Staff's and  
11 the Coalition's purported resolution to the intra-class subsidization issue is not reflected  
12 in their LEA model modifications that indicate a revenue shortfall for a new premises  
13 customer addition.<sup>129</sup> In other words, if the New Premises Customer Charge were not  
14 reflected in the LEA, yet the decoupling mechanism is accounting for the full new  
15 premises cost of service as claimed by Staff and the Coalition, not all of the margin  
16 revenues commensurate with the cost to serve each new premises connection (a portion  
17 of which would be subsidized by existing premises customers through the volumetric  
18 margin rate)<sup>130</sup> would be appropriately reflected in the LEA model.

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<sup>126</sup> NW Natural/3900, Wyman/76.

<sup>127</sup> NW Natural/3900, Wyman/76.

<sup>128</sup> Coalition's Opening Brief at 22-23.

<sup>129</sup> NW Natural/3900, Wyman/76-77.

<sup>130</sup> NW Natural/4800, Wyman-Walker/49.

1 e. Non-growth capital assumptions are reasonable.

2 Staff and the Coalition criticize the non-growth capital assumptions included in the  
3 Company's LEA model. In particular, the Coalition maintains that the Company's non-  
4 growth capital expenditure assumption reflects a plan to build the gas system "as if it will  
5 continue to grow forever" and claims that the non-growth capital investment input "is the  
6 primary reason that adding a new premises customer results in a positive LEA."<sup>131</sup>

7 However, NW Natural's estimate for its non-growth capital is conservative and is  
8 based on the Company's proposed non-growth capital expenditure forecast from its latest  
9 internal Company plan.<sup>132</sup> As the Company explained in its Opening Brief, the Company  
10 updated its non-growth capital expenditure forecast in response to Staff's critique, which  
11 resulted in a minor impact to the DCF calculation but still supported the Company's  
12 proposal.<sup>133</sup> Additionally, the Company provided Surrebuttal Testimony explaining further  
13 that the Company's forecasted non-growth capital expenditures include spending  
14 categories such as capitalized leak repair and reconstruction, distribution and  
15 transmission line integrity management capital, public works relocations and  
16 abandonments, system reinforcements, district regulators, gate station capital upgrades,  
17 and vehicles.<sup>134</sup> These types of investments are necessary for any going concern utility  
18 like NW Natural.<sup>135</sup>

19 Further, even if—contrary to the evidence on the record in this case—no new  
20 customers were to join NW Natural's system, the Company must make "non-growth"

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<sup>131</sup> Coalition's Opening Brief at 17.

<sup>132</sup> NW Natural/4000, Therrien/29.

<sup>133</sup> NW Natural's Opening Brief at 69-70.

<sup>134</sup> NW Natural/4900, Therrien/21.

<sup>135</sup> NW Natural/4900, Therrien/21.

1 capital investments to continue to provide safe and reliable service on behalf of existing  
2 customers.<sup>136</sup> The Company’s model demonstrates that non-growth capital is expected  
3 to remain at current levels through 2026 but then decline for the remaining term of the  
4 LEA forecast.<sup>137</sup> These costs are included in the model to demonstrate how NW Natural’s  
5 future customers will contribute to these costs, not to bind the Company to these  
6 estimates.<sup>138</sup> Because these are costs that will be incurred regardless of the Company’s  
7 growth, the Company models these expenditures to show that, all else equal, the  
8 incremental cost of new capital investment on a per-customer basis is reduced by adding  
9 new customers.<sup>139</sup> As Staff acknowledges, “[i]ncreases in non-growth-related capital  
10 investment increase the value of new customers to the system.”<sup>140</sup>

11 f. Periods that a home is unoccupied do not affect the LEA model due  
12 to assumptions that take into account a delay in occupancy.

13 Staff critiques the model by claiming that there may be periods when a residence  
14 is temporarily unoccupied and not paying rates.<sup>141</sup> The Company addresses this issue in  
15 its Opening Brief, explaining that the model assumes that all investment is made at the  
16 beginning of the year, creating a “year zero” in the model, and does not include any value  
17 of new customer revenues until year 1.<sup>142</sup> Moreover, the impact to the LEA would be *de*  
18 *minimis*.<sup>143</sup> It is also worth noting that a new residential conversion customer (i.e.,  
19 establishing gas service to an existing home) would unlikely have any delay in service

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<sup>136</sup> NW Natural/1900, Therrien/10.

<sup>137</sup> NW Natural/4900, Therrien/21-22.

<sup>138</sup> NW Natural/4900, Therrien/21.

<sup>139</sup> NW Natural/1900, Therrien/11.

<sup>140</sup> Staff’s Opening Brief at 15.

<sup>141</sup> Staff’s Opening Brief at 15.

<sup>142</sup> NW Natural’s Opening Brief at 70; NW Natural/4000, Therrien/17.

<sup>143</sup> NW Natural/4000, Therrien/17.

1 because that customer is already living in the premises that is converting to natural gas  
2 service and would require gas service immediately.<sup>144</sup> Thus, Staff's critique of this input  
3 in the LEA model is misguided and should not serve as reason to reject the model.

4 g. A tiered LEA provides incentives for energy efficient appliances and  
5 the total allowance can be adjusted if other model inputs require a  
6 reduction.

7 In its Closing Brief, the Coalition asks for the first time for explanation how the  
8 Company will administer a tiered LEA.<sup>145</sup> It argues that the tiered LEA is inconsistent with  
9 the Company's current administration of the LEA, or the "portfolio approach."<sup>146</sup> As  
10 detailed below, the Coalition and CUB misunderstand the administration of the  
11 Company's current LEA, and incorrectly claim that NW Natural determines customer  
12 contributions and evaluates prudence through a portfolio approach.<sup>147</sup> This is incorrect.  
13 Consistent with its current approach, NW Natural will obtain a usage estimate from the  
14 customer and determine the resulting LEA accordingly. The key difference with the  
15 Company's tiered approach is that it results in an increased LEA for customers that plan  
16 to install lower-usage appliances.<sup>148</sup>

17 Moreover, the tiered approach in the LEA, like all other components of the model,  
18 ensures the LEA remains flexible to adjust to future regulatory or pricing changes.<sup>149</sup> The  
19 practical impact of a tiered structure is that in response to changing inputs, it may be that  
20 the higher usage tiers no longer receive an LEA while the lower usage tiers would  
21 continue to receive an LEA. This approach strikes the right balance and provides room

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<sup>144</sup> NW Natural/4000, Therrien/17.

<sup>145</sup> Coalition's Closing Brief at 11.

<sup>146</sup> Coalition's Closing Brief at 11.

<sup>147</sup> CUB's Closing Brief at 32-33; Coalition's Closing Brief at 22-23.

<sup>148</sup> NW Natural/1900, Therrien/3.

<sup>149</sup> NW Natural/4000, Therrien/7; NW Natural/4900, Therrien/6.

1 to accommodate changes to the inputs—and importantly, will be driven by data, rather  
2 than speculation.

3 h. The proposed LEA is flexible and adaptable.

4 Finally, Staff charges that the LEA is a “house of cards” that relies on “unrealistic  
5 assumptions about future costs and revenues.”<sup>150</sup> The Coalition also suggests that a  
6 mistake in any of the assumptions in the LEA model will result in a negative LEA when  
7 corrected.<sup>151</sup> These arguments—particularly the idea that the LEA model is a “house of  
8 cards” that, with one faulty assumption, will collapse—reflect a misunderstanding of the  
9 purpose of the flexibility crafted into the Company’s proposed LEA model.<sup>152</sup> The  
10 Company fully recognizes that the assumptions and inputs that inform the LEA may  
11 change over time.<sup>153</sup> For example, the Company expects that there will be greater  
12 certainty regarding GHG compliance costs after the ODEQ concludes its rulemaking to  
13 establish future Oregon GHG regulations.<sup>154</sup> The LEA model proposed here allows the  
14 Company to adjust the LEA amounts to reflect updated inputs as it receives more  
15 concrete information.<sup>155</sup> As such, the model is particularly well suited to the current  
16 regulatory environment where there remains some uncertainty concerning the inputs to  
17 the model. The Company expects that it will need to update the LEA with new model  
18 inputs periodically and plans to do so at least every time it files a rate case.<sup>156</sup>

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<sup>150</sup> Staff’s Closing Brief at 4.

<sup>151</sup> Coalition’s Closing Brief at 11.

<sup>152</sup> NW Natural/4000, Therrien/7.

<sup>153</sup> NW Natural/4000, Therrien/7.

<sup>154</sup> NW Natural/4000, Therrien/7.

<sup>155</sup> NW Natural/4000, Therrien/7.

<sup>156</sup> NW Natural/4000, Therrien/7.

1           The Company’s proposed LEA is grounded in reasonable assumptions based on  
2 the best information available now, and provides a path for the Company to responsibly  
3 expand the gas system and manage GHG emissions reduction compliance while  
4 ensuring that existing customers receive the benefits of adding new customers. It is  
5 precisely because the LEA is flexible that the Commission should adopt the Company’s  
6 proposal and permit the Company to administer the LEA under the current assumptions  
7 that are based on the best information available today, with the understanding that the  
8 LEA can and will be updated again in the future.

9 **C.    Schedule X Administration**

10           1.     *CUB and the Coalition incorrectly interpret Schedule X.*

11           CUB and the Coalition’s allegation of LEA overspend is premised upon their view  
12 that the Company is misapplying its tariff, but as explained in NW Natural’s Opening  
13 Brief,<sup>157</sup> the Company follows the plain language of the tariff, which does not support CUB  
14 and Coalition’s conclusion: Schedule X requires the Company to collect a customer  
15 contribution calculated by taking the difference between the construction cost and the  
16 construction allowance.<sup>158</sup> The construction cost is based on the Company’s historical  
17 system average costs, except the Company may use a site-specific estimate if  
18 extraordinary construction conditions exist.<sup>159</sup> While Schedule X requires a refund when  
19 actual costs are less than a site-specific estimate of construction costs, it does not require  
20 an additional customer contribution when actual construction costs exceed estimated.<sup>160</sup>

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<sup>157</sup> NW Natural’s Opening Brief at 76-77.

<sup>158</sup> NW Natural/5001, Zaubi-Kravtiz/6.

<sup>159</sup> NW Natural/5001, Zaubi-Kravtiz/3.

<sup>160</sup> NW Natural/5001, Zaubi-Kravtiz/6-7. CUB suggests that NW Natural does not seek an additional customer contribution when actual costs exceed estimated because the Company thinks the LEA

1           The Coalition and CUB fundamentally misunderstand how the Company  
2 implements its LEA.<sup>161</sup> For example, in its Closing Brief, the Coalition states:

3           Schedule X provides that future construction costs may be estimated using  
4 past costs. Such an approach is logical, and consistent with the requirement  
5 to prepare a site-specific cost estimate for extraordinary construction  
6 conditions. Based on its past expenditures, the Company should estimate  
7 the cost of a new connection and can rely on that construction estimate  
8 when offering to build a new line. But this is not what the Company is doing.

9           The Company is not looking at historical costs to develop an estimate for  
10 what a new connection will cost.<sup>162</sup>

11          The Coalition’s assertion that the Company is not looking at historical costs to develop  
12 estimates is factually incorrect. However, the Coalition’s description of a “logical”  
13 approach to implementing the tariff *is exactly what the Company is doing*.

14          CUB and the Coalition also misunderstand the Company’s interpretation of  
15 Schedule X and therefore offer off-point rebuttals and their own erroneous interpretations.  
16 First, CUB asserts that Schedule X does not state the customer contribution should be  
17 based on “estimated” costs.<sup>163</sup> That assertion ignores that the tariff’s description of  
18 “construction costs” makes clear that such costs are an estimate, and therefore, the  
19 customer contribution will be an estimate too.<sup>164</sup> The Coalition acknowledges the tariff’s  
20 definition of “construction costs” but selectively quotes it, focusing on a reference to “all

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agreement it signed with the customer trumps the terms of Schedule X. CUB’s Opening Brief at 32; CUB’s Closing Brief at 29. As explained in this section, NW Natural’s position is that Schedule X does not require it to go back and collect an additional customer contribution—not that the LEA agreement precludes it from doing so. However, as a matter of policy and customer relations, the tariff should not be interpreted to require the Company to seek an additional contribution after a customer signs an LEA agreement unless the customer is on notice at the time it signs the LEA agreement that it may need to bear additional costs. See NW Natural/5000, Zaubi-Kravitz/28.

<sup>161</sup> Coalition’s Closing Brief at 23; CUB’s Closing Brief at 33.

<sup>162</sup> Coalition’s Closing Brief at 23.

<sup>163</sup> CUB’s Closing Brief at 29.

<sup>164</sup> NW Natural/5001, Zaubi-Kravitz/3.

1 costs.”<sup>165</sup> When read in context, that reference to “all costs” simply indicates the types of  
2 costs included in construction costs. If “all costs” were interpreted to mean “actual, final  
3 construction costs,” there would be no need to “review annually and update[]” such costs  
4 or to describe how such costs are estimated.<sup>166</sup>

5 Second, both CUB and the Coalition emphasize that the construction allowance in  
6 the tariff is “per residential dwelling.”<sup>167</sup> But this is irrelevant to the determination of the  
7 customer contribution. The Company determines the customer contribution individually  
8 for each residential dwelling, and it does so by comparing the construction allowance for  
9 a residential dwelling with the estimated construction costs, as required by the tariff.

10 Third, the Coalition argues that the requirement to collect a customer contribution  
11 prior to installing the line extension confirms that the customer allowance is a cap.<sup>168</sup> In  
12 fact, the opposite is true. By making clear that the customer contribution is collected  
13 *before* beginning construction—i.e., before the final, actual costs of the installation can  
14 be known—the tariff confirms that the customer contribution amount is determined based  
15 on estimated construction costs, not the actual costs.<sup>169</sup> In other words, the tariff contains  
16 no provisions that put customers on notice that the Company could seek additional  
17 contributions, and the Company must stand by the terms of the tariff.

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<sup>165</sup> Coalition’s Opening Brief at 25. Before describing how construction costs are estimated, Schedule X states, “Construction costs include all costs associated with the extension of the Company’s Distribution Facilities. All costs applicable to this Schedule will be reviewed annually and updated as needed.” NW Natural/5001, Zaubi-Kravitz/3.

<sup>166</sup> See NW Natural/5001, Zaubi-Kravitz/3.

<sup>167</sup> CUB’s Opening Brief at 30; Coalition’s Opening Brief at 25 (also arguing that the construction allowance is based on the “annual estimated therm usage attributable to the Applicant’s *particular installation*.” (quoting Schedule X at Sheet X-5 (emphasis added))).

<sup>168</sup> Coalition’s Closing Brief at 21 (citing Schedule X at Sheet X-6, NW Natural/5001, Zaubi-Kravitz/6).

<sup>169</sup> NW Natural/5001, Zaubi-Kravitz/6.

1 In support of its interpretation of Schedule X, CUB cites two external sources—  
2 neither of which undermines the Company’s plain-language interpretation. CUB first  
3 claims NW Natural’s interpretation is counter to the “Line Extension Principles adopted  
4 by the Commission.”<sup>170</sup> Despite CUB’s framing, these principles were articulated as  
5 background in a Staff memo regarding another utility’s LEA, and neither Staff nor the  
6 Commission intended the principles to affect other utilities’ LEAs.<sup>171</sup> Even if these general  
7 statements somehow were relevant here, NW Natural’s interpretation and implementation  
8 of Schedule X is not contrary to the principles CUB cites, because NW Natural’s approach  
9 results in a net benefit to, and does not result in higher rates for, other customers.<sup>172</sup> CUB  
10 also points to an American Gas Association LEA report stating that a “customer must pay  
11 the costs that are above the fixed cap,” as support for CUB’s interpretation of the  
12 allowance as a cap.<sup>173</sup> However, this statement simply describes the “Dollar Allowance”  
13 approach to an LEA—it does not address whether the costs on which the customer  
14 contribution is based are estimated or actual costs.<sup>174</sup> The same page of the report also  
15 includes multiple references to the “expected construction costs,” which supports NW  
16 Natural’s use of estimated construction costs.<sup>175</sup>

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<sup>170</sup> CUB’s Closing Brief at 26.

<sup>171</sup> *In re Portland Gen. Elec. Co. Advice No. 20-14 (ADV 1130), Schedule 300 Line Extension Allowance*, Docket UE 385, Order No. 20-483, App. A (Dec. 23, 2020).

<sup>172</sup> NW Natural/5000, Zaubi-Kravitz/16-24.

<sup>173</sup> CUB’s Closing Brief at 30 (citing CUB/502 at 41).

<sup>174</sup> CUB/502 at 41 (explaining three approaches to calculating LEAs and describing on such approach as “**Dollar Allowance**: A dollar allowance follows a similar approach without the use of distance as a factor. The construction allowance is capped at a fixed dollar amount, and the customer must pay the costs that are above the fixed cap.”).

<sup>175</sup> See, e.g., CUB/502 at 41 (“If **expected** construction costs exceed **expected** revenues, then the customer must make a financial contribution to make the extension financially feasible and to prevent existing customers from subsidizing new customers.” (emphasis added)).

1 In sum, CUB's and the Coalition's efforts to reinterpret Schedule X are  
2 unpersuasive, and NW Natural's interpretation is the only one that gives effect to each of  
3 the tariff's terms. As a customer-facing document, Schedule X does not describe every  
4 detail of the Company's administration, but the Company's actions in administering the  
5 tariff are in all respects consistent with the framework described in Schedule X.

6 2. *NW Natural's LEA administration is prudent, and CUB's and the Coalition's*  
7 *arguments to the contrary are misplaced.*

8 In its Opening Brief, NW Natural explained that no disallowance or adjustment is  
9 appropriate because its administration of Schedule X is prudent.<sup>176</sup> At the time it collects  
10 each customer contribution, which is the relevant time for a prudence review,<sup>177</sup> NW  
11 Natural does so based on a robust decision-making process,<sup>178</sup> which includes analyzing  
12 historical system average data that is updated annually and applying the average for the  
13 same premises type or preparing a site-specific estimate where appropriate.<sup>179</sup>

14 CUB and the Coalition incorrectly claim that NW Natural determines customer  
15 contributions and evaluates prudence through a portfolio approach.<sup>180</sup> As addressed  
16 above, CUB and the Coalition are factually wrong about how the Company implements  
17 Schedule X. The Company always provides individual cost estimates to customers and  
18 builders—consistent with the “logical” approach described by the Coalition<sup>181</sup>—and NW  
19 Natural has never justified providing an LEA by relying on financial viability of other

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<sup>176</sup> NW Natural's Opening Brief at 72-79.

<sup>177</sup> *In re PacifiCorp, dba Pac. Power, Request for General Rate Revision*, Docket UE 374, Order No. 20-473 at 74 (Dec. 18, 2020).

<sup>178</sup> See Order No. 20-473 at 74 (utility's decision-making process is critical to the prudence analysis).

<sup>179</sup> NW Natural/4100, Zaubi/15-16; NW Natural/5000, Zaubi-Kravitz/20-21; NW Natural/5001, Zaubi-Kravitz/3.

<sup>180</sup> CUB's Closing Brief at 32-33; Coalition's Closing Brief at 22-23.

<sup>181</sup> Coalition's Closing Brief at 23.

1 customers in a portfolio. The Company performs a present value revenue requirement  
2 (“PVRR”) analysis as a financial evaluation to determine whether customers benefit from  
3 Schedule X administration on an annual basis, contrary to CUB and the Coalition’s  
4 claim.<sup>182</sup> In all cases, the PVRR analysis demonstrates a benefit to customers, which  
5 was not disputed by the parties.

6 The Coalition also makes several factual statements regarding the Company’s  
7 LEA administration that should be briefly addressed:

- 8 • The Coalition claims that NW Natural’s construction estimates are inaccurate  
9 because the construction contribution and construction allowance did not cover the  
10 full cost for 19 percent of service lines constructed between 2018 and 2023.<sup>183</sup>  
11 However, as the Coalition itself explains, the construction estimates used to  
12 calculate the customer contribution are generally based on the historical system  
13 average.<sup>184</sup> The fact that some construction costs exceed the applicable average  
14 is inherent in the nature of averages—not evidence of inaccuracy.<sup>185</sup>
- 15 • The Coalition highlights a few instances in which actual construction costs  
16 significantly exceeded the estimate.<sup>186</sup> Such instances are very rare,<sup>187</sup> and NW

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<sup>182</sup> NW Natural’s Reply in Support of Motion to Strike CUB’s Additional Exhibits did state that the Company performs a portfolio analysis “when assessing prudence,” as the Coalition notes. Coalition’s Opening Brief at 30 (citing NW Natural’s Reply in Support of Motion to Strike CUB’s Additional Exhibits at 13). As explained in the rest of the referenced portion of that Reply and in the Company’s Opening Brief, the Company uses the PVRR analysis to evaluate the impacts to current customers as a financial check to ensure that the thousands of new connections each year continue to benefit all customers. NW Natural’s Opening Brief at 77-78.

<sup>183</sup> Coalition’s Opening Brief at 32; Coalition’s Closing Brief at 20.

<sup>184</sup> Coalition’s Closing Brief at 23; see also NW Natural/5001, Zaubi-Kravtitz/3.

<sup>185</sup> NW Natural/4100, Zaubi/13-14, 16; NW Natural/5000, Zaubi-Kravtitz/15.

<sup>186</sup> Coalition’s Opening Brief at 27.

<sup>187</sup> The Company demonstrated that 99 percent of 2023 work orders were below a total cost of \$10,000, and 82 percent of orders were between \$1,000 and \$5,000. NW Natural/4100, Zaubi/18. Only 19 percent of line extensions involved actual construction costs that exceeded the estimate *by any amount* in 2023.

1 Natural has already taken proactive measures to address them.<sup>188</sup> The Company  
2 also noted potential prospective tariff revisions to hold new customers responsible  
3 for construction costs that exceed the estimate by more than 25 percent.<sup>189</sup>

4 • The Coalition describes a workorder error,<sup>190</sup> but the Company testified that such  
5 errors are the exception and not the rule.<sup>191</sup>

6 • The Coalition claims NW Natural “connects customers largely free of charge and  
7 regardless of cost.”<sup>192</sup> In fact, 17 percent of line extensions required a customer  
8 contribution in 2023,<sup>193</sup> and in most cases where no contribution was required, the  
9 actual construction cost was below the applicable construction allowance.<sup>194</sup>

10 In sum, the Coalition’s factual statements are incorrect or significantly lacking in context  
11 and do not support its proposed disallowance.

12 3. *CUB and the Coalition fail to address—much less justify—their radical*  
13 *position that the Commission should upset three prior stipulations and*  
14 *orders by removing previously approved rate base.*

15 NW Natural’s Opening Brief explained that the Commission already found the  
16 challenged LEA amounts prudent and approved their inclusion in rate base by adopting  
17 stipulations in three prior rate cases,<sup>195</sup> and that the Coalition and CUB’s present

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NW Natural/5000, Zaubi-Kravitz/19. And only 0.27 percent of residential work orders between 2018 and 2023 had total cost less contribution greater than \$17,000. NW Natural/5000, Zaubi-Kravitz/16.

<sup>188</sup> NW Natural/5000, Zaubi-Kravitz/25. Starting in January 2024, the Company began using site-specific estimates for conversions, and NW Natural is in the process of investigating modifications to its mapping software to better understand when a site-specific estimate is appropriate. NW Natural/5000, Zaubi-Kravitz/25.

<sup>189</sup> NW Natural/5000, Zaubi-Kravitz/28.

<sup>190</sup> Coalition’s Opening Brief at 27.

<sup>191</sup> NW Natural/4100, Zaubi/18.

<sup>192</sup> Coalition’s Closing Brief at 11.

<sup>193</sup> NW Natural/4100, Zaubi/12.

<sup>194</sup> See *supra* note 187.

<sup>195</sup> NW Natural’s Opening Brief at 80; NW Natural/5000, Zaubi-Kravitz/7-8; NW Natural/5004, Zaubi-Kravitz/6-7; NW Natural/5003, Zaubi-Kravitz/4; NW Natural/5002, Zaubi-Kravitz/5-6.

1 challenge is an impermissible collateral attack on the prior orders that sets concerning  
2 precedent.<sup>196</sup> The Company also explained that CUB signed these stipulations. Tellingly,  
3 CUB and the Coalition failed to acknowledge these arguments and **offered no response**  
4 justifying their untimely collateral attack on the prior stipulations and orders.

5 CUB and the Coalition focused instead on the Company's argument that removing  
6 undepreciated plant that was previously approved from rate base is akin to ordering  
7 refunds and is therefore impermissible retroactive ratemaking,<sup>197</sup> but CUB's and the  
8 Coalition's arguments are unpersuasive. First, CUB provides a lengthy discussion of a  
9 case that CUB claims stands for the proposition that the Commission can prospectively  
10 disallow amounts that it has previously allowed into rate base.<sup>198</sup> However, that case did  
11 not involve a disallowance of amounts already approved for recovery in a prior case.  
12 Rather, it addressed prospective recovery for equipment and services provided under a  
13 contract with an affiliate of the utility.<sup>199</sup> The "excess earnings"<sup>200</sup> discussed and  
14 ultimately disallowed in that case were the amounts paid to the affiliate that yielded  
15 earnings for the affiliate above the utility's authorized rate of return.<sup>201</sup> The Court found  
16 that neither the Commissioner's prior approval of the affiliated interest contract nor of the  
17 utility's budget estopped him from disallowing recovery of payments under the contract.<sup>202</sup>

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<sup>196</sup> NW Natural's Opening Brief at 80-85.

<sup>197</sup> Contrary to CUB and the Coalition's claim, CUB's Closing Brief at 33; Coalition's Opening Brief at 24, NW Natural understands that parties are not advocating for refunds in this case.

<sup>198</sup> CUB's Opening Brief at 34-36 (discussing *Pac. Nw. Bell Tel. Co. v. Sabin*, 21 Or App 200 (1975)).

<sup>199</sup> *Pac. Nw. Bell*, 21 Or App at 205-07.

<sup>200</sup> CUB uses the term "overearnings," CUB's Opening Brief at 35, but the phrasing in the case is "excess earnings." *Pac. Nw. Bell*, 21 Or App at 208-09.

<sup>201</sup> *Pac. Nw. Bell*, 21 Or App at 208 (quoting Commissioner's order denying full recovery because "To the extent that its proposed revenue increase is based on transactions between PNB and Western which yield to Western a greater return than enjoyed by or allowed to PNB, the company has not shown that such increase is fair and reasonable").

<sup>202</sup> *Pac. Nw. Bell*, 21 Or App at 225-28.

1 But as the Court noted, prior approval of an affiliated interest agreement or budget is  
2 different from examining actual costs to be added into rates.<sup>203</sup> In sum, the case does  
3 not suggest that the Commission has the authority to disallow LEA rate base here.

4 The Coalition relies on the conclusion in *Gearhart v. Public Utility Commission of*  
5 *Oregon*,<sup>204</sup> that the Commission can order refunds to correct legal errors that lead to  
6 unjust and unreasonable exactions.<sup>205</sup> The Coalition asserts that NW Natural agrees the  
7 Commission can issue refunds of unjust or unreasonable costs,<sup>206</sup> and that here the  
8 Commission should remove “illegal charges” that NW Natural “unjustly included in  
9 rates.”<sup>207</sup> The Coalition is incorrect because unlike the circumstances in *Gearhart* and  
10 discussed in NW Natural’s brief, the prior orders that the Coalition and CUB seek to revisit  
11 were not appealed and overturned, and thus there is no basis for reopening those cases  
12 and revisiting the issues here.<sup>208</sup> Further, as discussed above, there is nothing illegal or  
13 unjust about NW Natural’s implementation of Schedule X, and it was the Commission and  
14 parties to prior cases that determined the LEA amounts included in rates were just and  
15 reasonable—not a unilateral decision by the Company.

16 Finally, CUB argues that because the \$13.7 million reduction parties seek is  
17 undepreciated, that amount “has not yet been added into rates.”<sup>209</sup> While the  
18 undepreciated amount has not yet been expensed, it is presently included in rate base

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<sup>203</sup> See *Pac. Nw. Bell*, 21 Or App at 227-28.

<sup>204</sup> 356 Or 216 (2014).

<sup>205</sup> Coalition’s Opening Brief at 32.

<sup>206</sup> Coalition’s Closing Brief at 24.

<sup>207</sup> Coalition’s Closing Brief at 24.

<sup>208</sup> *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”).

<sup>209</sup> CUB’s Closing Brief at 34.

1 and approved for recovery, consistent with the Commission’s prior orders.<sup>210</sup> The  
2 Commission should reject CUB’s radical position that undepreciated rate base can be  
3 removed in a future case because it “has not yet been added into rates.”<sup>211</sup> As explained  
4 in NW Natural’s Opening Brief, setting such precedent would undermine regulatory  
5 certainty and dramatically increase regulatory risk to the detriment of Oregon’s utilities.<sup>212</sup>

6 4. *CUB and the Coalition have not shown that NW Natural’s implementation*  
7 *of Schedule X is illegal.*

8 a. NW Natural did not violate ORS 757.225 and the filed rate doctrine.

9 CUB and the Coalition’s argument that NW Natural violated ORS 757.225 and the  
10 filed rate doctrine embodied therein by charging customers more for line extensions than  
11 is allowed under the terms of Schedule X fails because the Company has complied with  
12 the plain language of the tariff.<sup>213</sup> Moreover, the Company did not unilaterally inflate its  
13 rate base by adding amounts beyond what the tariff allows, as the Coalition argues.<sup>214</sup>  
14 Instead, the amounts added to rate base associated with customer growth were  
15 specifically agreed upon by stipulating parties and approved by the Commission in each  
16 of the Company’s past three rate cases.<sup>215</sup> In support of its filed rate doctrine argument,  
17 CUB cites several cases and Commission orders that simply stand for the undisputed  
18 proposition that a utility must charge the rates set forth in its tariff, which is exactly what  
19 NW Natural is doing here.<sup>216</sup> The Coalition relies on a case that held, “ORS 757.225 must

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<sup>210</sup> See NW Natural’s Opening Brief at 81-82.

<sup>211</sup> CUB’s Closing Brief at 34.

<sup>212</sup> NW Natural’s Opening Brief at 84-85.

<sup>213</sup> See CUB’s Opening Brief at 31-32; Coalition’s Opening Brief at 27-30.

<sup>214</sup> Coalition’s Opening Brief at 30.

<sup>215</sup> NW Natural/5000, Zaubi-Kravitz/7-8; NW Natural/5004, Zaubi-Kravitz/6-7; NW Natural/5003, Zaubi-Kravitz/4; NW Natural/5002, Zaubi-Kravitz/5-6.

<sup>216</sup> CUB’s Opening Brief at 31-32.

1 be read as prohibiting charges for service which has not been performed or for equipment  
2 which has not been furnished,”<sup>217</sup> but the case is inapposite because no party contends  
3 that NW Natural failed to furnish line extensions in exchange for amounts paid.

4 b. NW Natural did not violate ORS 757.310.

5 The Coalition argues that NW Natural violated ORS 757.310’s prohibition on  
6 discrimination within a customer class,<sup>218</sup> by collecting less from customers receiving line  
7 extensions than Schedule X required and charging existing customers “costs in excess  
8 of published rate schedules.”<sup>219</sup> However, this case does not implicate discrimination  
9 prohibited under ORS 757.310—i.e., charging different rates for identical service under  
10 like conditions<sup>220</sup>—because NW Natural does not offer different LEA terms to similarly  
11 situated potential customers. Rather, NW Natural uniformly administers its tariff for all  
12 residential customers.

13 c. NW Natural’s administration of Schedule X does not constitute  
14 retroactive ratemaking.

15 The Coalition argues that the Company engaged in retroactive ratemaking  
16 because including actual construction costs in rate base even when they exceed the  
17 estimated construction costs is truing-up actual costs to estimated.<sup>221</sup> While the Coalition  
18 is correct that the rule against retroactive ratemaking prohibits “adjusting past rates to  
19 ‘true up’ the estimated expenses and revenues used in the . . . test year to a utility’s actual  
20 expenses and revenues,” the rule does not apply in the way the Coalition suggests.<sup>222</sup>

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<sup>217</sup> *Holman Transfer Co. v. Pac. Nw. Bell Tel. Co.*, 287 Or 387, 401 (1979).

<sup>218</sup> Order No. 87-402 at 3.

<sup>219</sup> Coalition’s Opening Brief at 29.

<sup>220</sup> See *In re Rate Concessions to Poor Persons and Senior Citizens*, Docket R 23, Order No. 76-039 at 4-6 (Jan. 16, 1976).

<sup>221</sup> Coalition’s Closing Brief at 21-22.

<sup>222</sup> Coalition’s Closing Brief at 21-22.

1 Here, the Company’s LEA rate base was approved by the Commission during past rate  
2 cases,<sup>223</sup> and NW Natural does not seek to true-up LEA rate base to the actual LEA costs  
3 experienced. Rather, it is the Coalition and CUB who inappropriately seek to retroactively  
4 adjust the approved amount of LEA rate base.<sup>224</sup>

5 **D. RNG AAC**

6 1. *It is appropriate for the Commission to consider refinements to the RNG*  
7 *AAC in this proceeding.*

8 Staff, CUB, and the Alliance of Western Energy Consumers (“AWEC”) each  
9 indicate that the RNG AAC was litigated in NW Natural’s most recent rate case, docket  
10 UG 435,<sup>225</sup> with CUB asserting the Company is “trying to relitigate UG 435” in an effort  
11 “to get more favorable treatment without sufficient evidence to support a change is just  
12 and reasonable.”<sup>226</sup> AWEC, although it took no position on the RNG AAC in its testimony  
13 or at any point earlier in this docket, argues that the Company “has not presented a  
14 compelling case to justify its proposed changes to the AAC.”<sup>227</sup>

15 While the parties are correct that the RNG AAC was litigated in docket UG 435,  
16 that does not preclude the Company from proposing refinements to the RNG AAC in this  
17 proceeding. Moreover, the Company’s requested changes to the RNG AAC were made  
18 on the heels of the establishment of the first CPP, which, placed new decarbonization  
19 mandates on the Company. One of the proposals presented by the Company here in this  
20 docket is materially different from those litigated in docket UG 435. Specifically, in docket

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<sup>223</sup> NW Natural/5000, Zaubi-Kravitz/7-8; NW Natural/5004, Zaubi-Kravitz/6-7; NW Natural/5003, Zaubi-Kravitz/4; NW Natural/5002, Zaubi-Kravitz/5-6.

<sup>224</sup> See NW Natural’s Opening Brief at 82-83.

<sup>225</sup> Staff’s Opening Brief at 4; CUB’s Opening Brief at 39; AWEC’s Opening Brief at 7.

<sup>226</sup> CUB’s Opening Brief at 40.

<sup>227</sup> AWEC’s Opening Brief at 7.

1 UG 435, the Company proposed that the RNG AAC should not include an earnings  
2 test.<sup>228</sup> Now, in this case, the Company is not proposing to eliminate the earnings test,  
3 but rather seeks to remove only the deadbands, so that the earnings test will be set at  
4 the Company's authorized return on equity ("ROE").<sup>229</sup> CUB and AWEC ignore this  
5 distinction, instead dismissing the Company's arguments out of hand because the RNG  
6 AAC was previously litigated.<sup>230</sup> However, this aspect of NW Natural's proposal was not  
7 considered in docket UG 435 and, taken together with the changing regulatory  
8 environment discussed below, provide compelling reasons to revisit the RNG AAC.

9 To meet its own decarbonization goals and support the goals of the State of  
10 Oregon under ORS 468A.205—as well as future GHG regulations—the Company faces  
11 an increasing need to obtain RNG and make use of it for the benefit of customers.<sup>231</sup>  
12 CUB argues the Commission should not make changes to the RNG AAC to allow the  
13 Company to shift its RNG procurement strategy, because the Company's "procurement  
14 strategy is not at issue in this rate case."<sup>232</sup> However, the Company is not proposing  
15 radical changes to its RNG procurement strategy, and instead is continuing to follow the  
16 Commission's guidance "to pursue RNG and CCIs in the most economical way  
17 possible."<sup>233</sup> The Company explained in its Reply Testimony that it intended to follow this  
18 procurement strategy until the CPP was invalidated.<sup>234</sup> Even following the invalidation of  
19 the CPP, the changes proposed for the RNG AAC do not alter that procurement strategy,

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<sup>228</sup> Order No. 22-388 at 76.

<sup>229</sup> NW Natural/1500, Kravitz-Chittum/20; NW Natural/2000, Kravitz-Therrien/13-14.

<sup>230</sup> CUB's Opening Brief at 39; AWEC's Opening Brief at 7; AWEC's Closing Brief at 5.

<sup>231</sup> NW Natural/1500, Kravitz-Chittum/11; NW Natural/2000, Kravitz-Therrien/12; NW Natural/3600, Kravitz-Griffiths/17.

<sup>232</sup> CUB's Opening Brief at 39-40.

<sup>233</sup> NW Natural/3600, Kravitz-Griffiths/25-26.

<sup>234</sup> NW Natural/3600, Kravitz-Griffiths/17.

1 and the Company expects that it will continue to pursue the most economical (least-  
2 cost/least-risk) compliance path that is available. Considering that it is expected that new  
3 GHG emissions reduction regulations will be in place by early 2025, the changes to the  
4 RNG AAC are intended to give the Company the opportunity to recover costs associated  
5 with meeting the State's decarbonization goals.<sup>235</sup>

6 Staff, CUB, and AWEC reprise concerns from docket UG 435 that if the RNG AAC  
7 is too favorable to the Company, it might incentivize the Company to prioritize RNG  
8 projects.<sup>236</sup> The Company addressed this argument in its Opening Brief, explaining that  
9 this concern has not materialized in the two years since the Commission approved the  
10 current RNG AAC, as the Company has used it once for a single small RNG project  
11 (Dakota City).<sup>237</sup>

12 2. *A deferral will ensure the Company receives timely cost recovery when*  
13 *investing in RNG to meet required GHG emissions reduction targets and*  
14 *similar treatment to utilities that have comparable emissions targets.*

15 Staff, CUB, and AWEC all oppose the Company's request for a deferral that would  
16 allow it to recover costs incurred between the in-service date and the rate effective date  
17 of an RNG project, with AWEC joining this argument for the first time in briefing.<sup>238</sup>

18 Staff disagrees with the Company's contention that the RNG AAC is unbalanced,  
19 arguing instead that the RNG AAC already gives NW Natural the benefit of including new  
20 plant in rates without the need for a rate case, and that the Company is not entitled to  
21 avoid all regulatory lag.<sup>239</sup> AWEC joins in this argument.<sup>240</sup> The Company addressed this

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<sup>235</sup> NW Natural/3600, Kravitz-Griffiths/20.

<sup>236</sup> Staff's Opening Brief at 6; CUB's Opening Brief at 39; AWEC's Opening Brief at 7-8.

<sup>237</sup> NW Natural's Opening Brief at 91-93; NW Natural/3600, Kravitz-Griffiths/18.

<sup>238</sup> Staff's Opening Brief at 7; CUB's Opening Brief at 38-39; AWEC's Opening Brief at 7.

<sup>239</sup> Staff's Opening Brief at 7-10.

<sup>240</sup> AWEC's Opening Brief at 7; AWEC's Closing Brief at 5-6.

1 argument in its Opening Brief, explaining that it is unreasonable to require the Company  
2 to bear the costs and suffer regulatory lag for RNG projects that will be used for  
3 compliance with decarbonization regulations.<sup>241</sup>

4 Staff further argues that the benefit to the Company “balances out” with benefits to  
5 customers from annual updates to revenue requirement that reflect accumulated  
6 depreciation.<sup>242</sup> However, a deferral appropriately balances the benefits of the RNG AAC  
7 between NW Natural and its customers. Under traditional utility regulation, rate base is  
8 not reduced to reflect accumulated depreciation between general rate cases.<sup>243</sup> In  
9 contrast, under the RNG AAC, the Company’s RNG rate base is reduced annually to  
10 reflect accumulated depreciation, even if there is no general rate case.<sup>244</sup> Eliminating  
11 regulatory lag in this way benefits customers, and to provide symmetrical benefits for the  
12 Company, it is only fair that the Company should also receive the benefit of a reduction  
13 in regulatory lag through a deferral.<sup>245</sup>

14 The Commission should afford NW Natural comparable ratemaking treatment that  
15 is afforded to electric utilities through their Renewable Resources Adjustment Clauses  
16 (“RRACs”), which would balance the interests of the Company and customers while also  
17 recognizing that NW Natural must make the investments necessary to acquire RNG to  
18 meet emissions reductions goals.<sup>246</sup> Staff disputes NW Natural’s comparison of the RNG  
19 AAC to the RRACs available to electric utilities, arguing that RRACs are not precedential

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<sup>241</sup> NW Natural’s Opening Brief at 91.

<sup>242</sup> Staff’s Opening Brief at 7-10.

<sup>243</sup> NW Natural/4700, Kravitz-Griffiths/4.

<sup>244</sup> NW Natural/4700, Kravitz-Griffiths/4-5.

<sup>245</sup> NW Natural/4700, Kravitz-Griffiths/5.

<sup>246</sup> NW Natural’s Opening Brief at 91.

1 because they are the product of a settlement agreement.<sup>247</sup> Staff misses the point.  
2 Implicit in the inclusion of a deferral for the RRAC is a recognition that cost recovery for  
3 mandatory compliance programs is different from typical investments, and the utility  
4 should not suffer lag on such investments. Thus, while not precedential, the RRACs are  
5 instructive for how the Commission should consider cost recovery for the Company for its  
6 RNG.<sup>248</sup> Like the mandatory regime for the electric utilities, NW Natural expects that it will  
7 need to acquire RNG for compliance with future GHG emissions reductions  
8 regulations.<sup>249</sup>

9 Staff further argues that the Renewable Portfolio Standard (“RPS”) “is a percent of  
10 load requirement, requiring Oregon-regulated electric utilities to acquire renewable  
11 energy” for any non-zero load; whereas, Staff theorizes that NW Natural “could meet its  
12 entire GHG emissions reductions obligations while having a non-zero load by reducing  
13 its natural gas load through strategic electrification, energy efficiency, non-pipes  
14 alternatives, or other means.”<sup>250</sup> Staff’s argument, however, is contradicted by its own  
15 testimony on this topic, in which Staff conceded that “it would be infeasible to assume  
16 that non-pipes alternatives would be the only means to comply with the State’s  
17 decarbonization targets at this time.”<sup>251</sup> Moreover, Staff does not address NW Natural’s  
18 utility obligation to its customers to provide natural gas to meet their demands.<sup>252</sup> As a  
19 practical matter, NW Natural cannot both comply with future Oregon GHG regulations and

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<sup>247</sup> Staff’s Opening Brief at 6.

<sup>248</sup> NW Natural/1500, Kravitz-Chittum/15-16; NW Natural/2000, Kravitz-Therrien/11; NW Natural/3600, Kravitz-Griffiths/15-16; NW Natural/4700, Kravitz-Griffiths/6.

<sup>249</sup> NW Natural/1500, Kravitz-Chittum/15; NW Natural/2000, Kravitz-Therrien/11; NW Natural/3600, Kravitz-Griffiths/15-16.

<sup>250</sup> Staff’s Opening Brief at 6.

<sup>251</sup> Staff/3200, Dlouhy/10.

<sup>252</sup> NW Natural/3600, Kravitz-Griffiths/15.

1 fulfill its basic utility obligations solely through the non-pipeline alternatives suggested by  
2 Staff.<sup>253</sup> Instead, customers continue to demand natural gas for heating, cooking, and  
3 industrial applications and NW Natural must provide it. After taking actions to reduce  
4 demand through energy efficiency, demand response, and other means, it naturally  
5 follows that NW Natural must acquire decarbonized fuels to satisfy its customers' needs,  
6 help Oregon meet its GHG reduction goals, and comply with any future Oregon GHG  
7 regulations.<sup>254</sup> As a result, NW Natural should receive similar treatment to the electric  
8 utilities that must acquire renewable resources to meet its customers' demands while also  
9 meeting the RPS set by the State.<sup>255</sup>

10 Staff indicates that the RRACs are distinguishable because it argues that RNG is  
11 costly and risky, whereas the renewable projects pursued by the energy utilities were  
12 "widely commercially available and well known."<sup>256</sup> Staff additionally questions "how  
13 effective RNG will be as a compliance resource" under the new CPP.<sup>257</sup> However, as  
14 explained above, NW Natural must continue to pursue RNG to both meet its own  
15 decarbonization goals and support the goals of the State of Oregon under  
16 ORS 468A.205,<sup>258</sup> and as Staff notes, a new version of the CPP is currently in the  
17 rulemaking stage,<sup>259</sup> and the Company understands that the ODEQ expects the new rules  
18 to be in effect by January 1, 2025.<sup>260</sup> Although Staff raises a concern that it cannot

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<sup>253</sup> NW Natural/3600, Kravitz-Griffiths/15.

<sup>254</sup> NW Natural/3600, Kravitz-Griffiths/15-16.

<sup>255</sup> NW Natural/3600, Kravitz-Griffiths/15-16; NW Natural/4700, Kravitz-Griffiths/6.

<sup>256</sup> Staff's Opening Brief at 6.

<sup>257</sup> Staff's Opening Brief at 7.

<sup>258</sup> NW Natural/2000, Kravitz-Therrien/11.

<sup>259</sup> Staff's Opening Brief at 6.

<sup>260</sup> NW Natural/3600, Kravitz-Griffiths/7-8.

1 evaluate the potential of RNG as a compliance resource for the future Oregon GHG  
2 emissions reductions regulations, Staff's argument speaks to the prudence of RNG  
3 investment, not whether a deferral is appropriate.<sup>261</sup> The Company will still only recover  
4 prudently incurred costs, so it will retain the risk of non-recovery in the event a particular  
5 investment is deemed imprudent.<sup>262</sup>

6 Staff additionally contends that allowing a deferral will "remove essentially all  
7 performance risk from the Company without a quantifiable benefit for customers."<sup>263</sup> CUB  
8 and AWEC echo Staff on this point.<sup>264</sup> However, as discussed above, the deferral only  
9 changes the timing of the Company's cost recovery, it **does not** shift risk to customers.<sup>265</sup>  
10 The Company will still only recover prudently incurred costs, but it will avoid the regulatory  
11 lag that creates an imbalance in the mechanism.<sup>266</sup> RNG produced during the time a  
12 deferral would be in place would benefit customers, particularly if it is used to comply with  
13 future Oregon GHG regulations, and thus NW Natural should have the opportunity to  
14 recover those costs.<sup>267</sup> As such, even with a deferral added, Schedule 198 will still  
15 contain an equitable distribution of cost and risk across the Company and customers.

16 CUB further argues that customers would bear more risk with a deferral and that  
17 the Company's reliance on the impacts of weather variation and load growth are further  
18 attempts to shift this risk.<sup>268</sup> However, the Company explained how weather variability

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<sup>261</sup> NW Natural/3600, Kravitz-Griffiths/16.

<sup>262</sup> NW Natural/1500, Kravitz-Chittum/17.

<sup>263</sup> Staff's Opening Brief at 7.

<sup>264</sup> CUB's Opening Brief at 39; AWEC's Closing Brief at 5-6.

<sup>265</sup> NW Natural/4700, Kravitz-Griffiths/4-5.

<sup>266</sup> NW Natural/4700, Kravitz-Griffiths/4-5.

<sup>267</sup> NW Natural/3600, Kravitz-Griffiths/16.

<sup>268</sup> CUB's Opening Brief at 39.

1 and load growth are major issues that will impact CPP compliance planning.<sup>269</sup> The  
2 Company anticipates that the unpredictability in weather may potentially have a significant  
3 effect on compliance with future GHG emissions reduction regulations. Although CUB  
4 dismisses this issue as an attempt to shift risk to customers,<sup>270</sup> this charge is unsupported.  
5 NW Natural will pursue least cost/least risk CPP compliance actions as available;  
6 however, given the amount of covered emissions it is likely to need to reduce, NW Natural  
7 will have to pursue a number of actions simultaneously, including acquiring decarbonized  
8 fuels, like RNG.<sup>271</sup> As a result, the Company seeks a deferral so that it can maximize  
9 RNG projects that are beneficial to customers, not to shift risk as CUB alleges. As  
10 explained above, under a deferral, the Company will still need to demonstrate costs for  
11 which it seeks recovery were prudently incurred.<sup>272</sup>

12         3.       *Adding flexibility to the filing date for Schedule 198 will address the*  
13                 *Company's concerns short of adding a deferral.*

14         Staff additionally opposes the Company's alternative proposal for a flexible filing  
15 date to add RNG projects to rate base.<sup>273</sup> The Company addressed this issue in its  
16 Opening Brief, explaining that, in the alternative to a deferral, its underlying cost recovery  
17 concern could be addressed by adding flexibility to the timing of a Schedule 198 filing so  
18 that rates go into effect shortly after an RNG project enters service.<sup>274</sup> Currently, the  
19 timing of a Schedule 198 filing is fixed such that NW Natural must make a filing by  
20 February 28th of each year to seek cost recovery of any new RNG investment, without

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<sup>269</sup> NW Natural/1500, Kravitz-Chittum/8-12.

<sup>270</sup> CUB's Opening Brief at 39.

<sup>271</sup> NW Natural/1500, Kravitz-Chittum/11.

<sup>272</sup> NW Natural/1500, Kravitz-Chittum/17.

<sup>273</sup> Staff's Opening Brief at 7.

<sup>274</sup> NW Natural's Opening Brief at 93; NW Natural/2000, Kravitz-Therrien/13.

1 regard to when the facility goes into service.<sup>275</sup> The Company acknowledged that this  
2 alternative approach may impact Commission and stakeholder resources to review each  
3 filing, but is offered as a reasonable alternative to allow the Company to address this  
4 issue without adding a deferral to the RNG AAC.<sup>276</sup>

5 4. *The earnings test should be set at the authorized ROE to reflect the amount*  
6 *the parties have agreed is appropriate for NW Natural to earn.*

7 Staff, CUB, and AWEC oppose the Company's proposed elimination of the  
8 deadbands for the Schedule 198 earnings test. In opposing elimination of the deadbands,  
9 Staff's analysis considers the Company's current off-system RNG projects that run  
10 through affiliates, concluding that any "concern that the earnings test could penalize the  
11 Company for overly successful RNG projects is unsubstantiated."<sup>277</sup> However, Staff's  
12 analysis regarding off-system projects does not address the specific concern raised by  
13 the Company to on-system projects—that on-system projects may likely result in higher  
14 revenue requirement, even while customers benefit from lower per-therm prices due to  
15 increased production.<sup>278</sup>

16 Staff argues that, "even if" NW Natural were correct regarding effects associated  
17 with on-system projects, the Company has not shown that expense "would be sufficient  
18 to materially impact the earnings test."<sup>279</sup> However, the Company explained that if the  
19 increased production causes NW Natural's authorized ROE to fall within the deadbands,  
20 the Company **cannot** recover those costs, which results in a disincentive to increase

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<sup>275</sup> NW Natural/2000, Kravitz-Therrien/12-13.

<sup>276</sup> NW Natural's Opening Brief at 93.

<sup>277</sup> Staff's Opening Brief at 8.

<sup>278</sup> NW Natural/3600, Kravitz-Griffiths/22; NW Natural/4700, Kravitz-Griffiths/3-4.

<sup>279</sup> Staff's Closing Brief at 10.

1 production even when that production would benefit customers.<sup>280</sup> The Company's  
2 proposal seeks to correct this regulatory bind created by the deadbands in the current  
3 earnings test.<sup>281</sup>

4 Staff further indicates that because this situation has not happened yet, it is not a  
5 problem for the Company.<sup>282</sup> Staff ignores the fact that the Company faces the need to  
6 increase RNG procurement to comply with GHG emissions reduction targets.<sup>283</sup> Further,  
7 it removes any incentive the Company would have to over-forecast the costs of RNG to  
8 stay within the upper deadband.<sup>284</sup> Under this proposal, the earnings test would still  
9 trigger if the Company's actual ROE were at or above the authorized ROE or if its actual  
10 Schedule 198 costs exceed the annual forecast.<sup>285</sup> Setting the earnings test at the  
11 authorized ROE strikes a reasonable balance between the Company's and customers'  
12 interests as it results in an incentive for NW Natural to produce as much RNG as possible  
13 at the lowest per-unit cost regardless of any increase to overall revenue requirement.<sup>286</sup>

14 As such, the Company has demonstrated a need to reevaluate the RNG AAC, add  
15 a deferral to address regulatory lag, and remove the deadbands from the earnings test to  
16 incentivize increased RNG production for on-system projects for the benefit of customers.

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<sup>280</sup> NW Natural/3600, Kravitz-Griffiths/22.

<sup>281</sup> NW Natural/3600, Kravitz-Griffiths/23-24.

<sup>282</sup> Staff's Opening Brief at 8.

<sup>283</sup> NW Natural/2000, Kravitz-Therrien/12.

<sup>284</sup> NW Natural/4700, Kravitz-Griffiths/3.

<sup>285</sup> NW Natural/1500, Kravitz-Chittum/20.

<sup>286</sup> NW Natural/1500, Kravitz-Chittum/19.

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

2 1. *The Company is already working toward expanding outreach and*  
3 *enrollment in line with Staff's suggestions.*

4 Staff states that it expects that “improved program execution is facilitated by the  
5 Company’s direct and targeted involvement[,]” and urges the Company to implement  
6 “additional targeted design and outreach to close the gap Staff observed between NW  
7 Natural’s OLIEE projections and actual completions.”<sup>287</sup> Staff indicates that the point of  
8 its recommendation is to ensure that the Company engages in direct outreach to  
9 customers and Community Action Partner (“CAP”) Agencies, “to help ensure successful  
10 and robust implementation of the OLIEE program.”<sup>288</sup>

11 As the Company explained in its Reply and Surrebuttal Testimony, CAP Agencies  
12 have multiple sources of funding, and they blend these funds to maximize the energy  
13 efficiency upgrades that a client receives.<sup>289</sup> Once a project is completed, a CAP Agency  
14 will provide NW Natural the necessary information to receive reimbursement for the  
15 project.<sup>290</sup> Since CAP Agencies set their own annual projections, the Company does not  
16 have direct control over how well projections align with actual completions.<sup>291</sup> Customer  
17 engagement, project estimates, and project completions within the OLIEE program are  
18 largely determined by the CAP Agencies.<sup>292</sup> That said, there have been recent positive  
19 updates from the CAP Agencies, and during the July 16, 2024, OLIEE Advisory  
20 Committee meeting, it was reported that participating CAP Agencies are on track to

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<sup>287</sup> Staff’s Opening Brief at 27.

<sup>288</sup> Staff’s Opening Brief at 28.

<sup>289</sup> NW Natural/2300, Tanaka/39.

<sup>290</sup> NW Natural/2300, Tanaka/39.

<sup>291</sup> NW Natural/4500, Tanaka/4.

<sup>292</sup> NW Natural/4500, Tanaka/4.

1 surpass last year's OLIEE project record.<sup>293</sup> The Company is optimistic that project  
2 completions will continue to increase, helping to close the current gap, in alignment with  
3 Staff's recommendations.<sup>294</sup>

4 While Staff recognized NW Natural does not have complete control over the CAP  
5 Agencies and that NW Natural is committed to increasing outreach and enrollment in the  
6 OLIEE program, Staff clarifies that the point of its recommendation is that the utility must  
7 be proactive, both with direct outreach to customers and CAP Agencies to ensure a  
8 successful and robust program.<sup>295</sup> Here, Staff and the Company are aligned. The  
9 Company is implementing new and enhanced outreach activities and several new and  
10 planned pilot projects through the OLIEE Open Solicitation Program, which the Company  
11 expects will help to close the current gap between projections and completions.<sup>296</sup>  
12 Additionally, the Company remains open to receiving any specific suggestions from Staff  
13 and stakeholders on OLIEE outreach and enrollment as well.<sup>297</sup>

14 2. *The Commission should reject the Coalition's proposal to modify the OLIEE*  
15 *program.*

16 Contrary to the Coalition's arguments,<sup>298</sup> there is no mandate for the Commission  
17 to include an option for heat pumps in every energy efficiency program it approves.<sup>299</sup>  
18 Further, OLIEE already achieves goals of reducing the Company's GHG emissions as it  
19 funds energy efficient upgrades for recipients,<sup>300</sup> and the current administration of the

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<sup>293</sup> NW Natural/4500, Tanaka/4.

<sup>294</sup> NW Natural/4500, Tanaka/4.

<sup>295</sup> Staff's Opening Brief at 28.

<sup>296</sup> NW Natural/4500, Tanaka/4.

<sup>297</sup> NW Natural/4500, Tanaka/4-5.

<sup>298</sup> Coalition's Opening Brief at 47, 50-51, 55-56; Coalition's Closing Brief at 39-40.

<sup>299</sup> ORS 469.763.

<sup>300</sup> NW Natural/200, Tanaka/26; NW Natural/2300, Tanaka/44-45; NW Natural/4500, Tanaka/13-14.

1 OLIEE program appropriately balances the interests of OLIEE recipients and customers  
2 who pay toward OLIEE funding.<sup>301</sup> Moreover, customer choice is served by the current  
3 language of OLIEE, allowing customers to obtain natural gas appliances if they so  
4 choose.<sup>302</sup> Finally, given the record in this case, there is no reason for the Commission  
5 to duplicate efforts and take up the same issues a second time in a policy docket. NW  
6 Natural respectfully requests that the Commission reject both the Coalition’s primary and  
7 alternative proposals.

8 a. The Commission has not been given a mandate to include heat  
9 pumps in every bill assistance or energy efficiency program that it  
10 approves.

11 The Coalition argues that ORS 757.315 and ORS 469.763 “contradict” the  
12 Company’s position that OLIEE funds should not be used for the installation of electric  
13 heat pumps rather than high-efficiency furnaces.<sup>303</sup> In particular, the Coalition argues that  
14 ORS 757.315 empowers the Commission to authorize a public purpose charge for energy  
15 efficiency activities and that ORS 469.763 creates a “legal obligation” that the  
16 Commission “deploy the most energy efficient space heating technology that also reduces  
17 Oregon’s greenhouse gas emissions.”<sup>304</sup> The Coalition argues that because the  
18 Legislative Assembly included legislative findings in ORS 469.760(1)(d) that “heat pumps  
19 [are] the most energy efficient space heating option available in the market[,]” Schedule  
20 320 “*must* be revised” to require heat pumps be an option.<sup>305</sup>

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<sup>301</sup> NW Natural/2300, Tanaka/45.

<sup>302</sup> NW Natural/4500, Tanaka/10.

<sup>303</sup> Coalition’s Opening Brief at 51.

<sup>304</sup> Coalition’s Opening Brief at 51-52.

<sup>305</sup> Coalition’s Opening Brief at 50-51 (emphasis added).

1           The Coalition’s interpretation of the legislature’s intent codified at ORS 757.315,  
2 ORS 469.760, and ORS 469.763 is too broad and does not reflect a reasonable  
3 application to the Company’s position. For example, the Coalition argues that “nothing in  
4 ORS 757.315 requires that the public purpose charge be used to fund only equipment  
5 that uses natural gas.”<sup>306</sup> While it is true that ORS 757.315 does not include any specific  
6 language on this point, the Coalition’s interpretation cannot be harmonized with the  
7 Commission’s obligation to regulate utilities and set rates consistent with the public  
8 interest.<sup>307</sup> As the Company argued in its Opening Brief, it is bad policy and contrary to  
9 the public interest to use natural gas customer funds for a program feature that, if adopted,  
10 may result in removing customers from the gas system.<sup>308</sup>

11           Further, the Coalition implies that because the legislature “finds heat pumps to be  
12 ‘the most energy efficient space heating option available in the market’ under  
13 ORS § 469.760(1)(d),” the Commission should also require OLIEE funds to be available  
14 to replace gas furnaces with a heat pump.<sup>309</sup> However, ORS 469.760 provides legislative  
15 findings and does not provide operative direction to the Commission. While legislative  
16 findings may in some cases provide context to inform the reading of operative provisions  
17 of the statute, they do not support an argument that the operative provisions of a statute  
18 should be taken to mean something other than what they appear to suggest.<sup>310</sup> Moreover,  
19 the other legislative findings signaled that the legislature was seeking to promote the  
20 installation of energy efficient appliances more broadly than just heat pumps, as in ORS

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<sup>306</sup> Coalition’s Opening Brief at 55.

<sup>307</sup> ORS 756.040.

<sup>308</sup> NW Natural’s Opening Brief at 98.

<sup>309</sup> Coalition’s Opening Brief at 51; Coalition’s Closing Brief at 36.

<sup>310</sup> *Burke v. State*, 352 Or 428, 441 (2012).

1 469.760(1), the legislature also found that “[m]any residents of this state suffer from  
2 disproportionately high energy burdens, and environmental justice communities face  
3 greater barriers to purchasing and installing heat pumps **and other energy efficient**  
4 **appliances**,”<sup>311</sup> and further that that “support and innovative solutions are necessary to  
5 ensure that all households in this state benefit from **energy efficient appliances** and  
6 heating and cooling upgrades.”<sup>312</sup>

7         The operative portion of the statute is contained in ORS 469.763, which directs the  
8 Commission to “consider actions to aid in achieving greenhouse gas emissions reduction  
9 goals,” but does not express any preference for electric heat pumps over high efficiency  
10 natural gas appliances.<sup>313</sup> In turn, “[g]reenhouse gas emissions reduction goals” are  
11 defined to include “policies and goals for reducing greenhouse gas emissions in this state  
12 to achieve, at a minimum, emissions reductions consistent with the greenhouse gas  
13 emissions reduction goals specified in ORS 468A.205.”<sup>314</sup> But nowhere in this section—  
14 nor in the legislative findings—does the legislature mandate the Commission only  
15 approve programs that provide heat pumps or require that all programs support heat  
16 pump installation.<sup>315</sup> If the legislature had meant to limit the Commission to approving  
17 “designated state agency programs” that include funding for heat pumps, it would have  
18 made such requirement explicit.<sup>316</sup> Plainly, no such requirement exists.

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<sup>311</sup> ORS 469.760(1)(g) (emphasis added).

<sup>312</sup> ORS 469.760(1)(h) (emphasis added).

<sup>313</sup> ORS 469.763(2).

<sup>314</sup> ORS 469.763(1)(b).

<sup>315</sup> ORS 469.763

<sup>316</sup> ORS 174.010 (indicating that it is a general rule of statutory construction “not to insert what has been omitted, or to omit what has been inserted”).

1 As noted above, ORS 469.763(2) simply directs the Commission to “consider  
2 actions to aid in achieving greenhouse gas emissions reduction goals.”<sup>317</sup> The OLIEE  
3 program as it currently exists is in alignment with these goals because it is aimed at  
4 providing energy efficient natural gas appliances and upgrades to OLIEE recipients,  
5 which will help NW Natural to achieve the GHG emissions reduction goals specified in  
6 ORS 468A.205.

7 b. The OLIEE program assists low-income customers in obtaining  
8 energy efficient gas appliances that drive down GHG emissions in  
9 line with State goals.

10 The Coalition argues that the requirement in Schedule 320 to replace non-  
11 functioning or red-tagged gas appliances with new gas appliances prevents the program  
12 from “meaningfully reduc[ing] greenhouse gas emissions.”<sup>318</sup> The Coalition maintains  
13 that changing the OLIEE program to “upgrade homes with an electric heat pump” will  
14 accomplish that goal by “reducing building envelope energy use and GHG emissions.”<sup>319</sup>  
15 The Coalition also argues that funding electrification will “help NW Natural achieve its own  
16 GHG emission reduction targets through investing in energy efficiency and  
17 conservation”<sup>320</sup> and that using OLIEE funds for this purpose “could be a far more  
18 reasonable investment to meet CPP compliance requirements” than other alternative  
19 fuels.<sup>321</sup>

20 In making these arguments, the Coalition continues to conflate electrification with  
21 decarbonization, even though it maintains that it is “not confused,” but rather

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<sup>317</sup> ORS 469.763(2).

<sup>318</sup> Coalition’s Opening Brief at 47.

<sup>319</sup> Coalition’s Opening Brief at 52-53.

<sup>320</sup> Coalition’s Opening Brief at 53.

<sup>321</sup> Coalition’s Closing Brief at 40.

1 “recommending adoption of one of the most cost-effective methods for  
2 decarbonization.”<sup>322</sup> The Company addressed this point in its Opening Brief, explaining  
3 that removing natural gas appliances and installing electric appliances is not itself  
4 decarbonization or emissions reduction, and that shifting customers from the gas to the  
5 electric system does not necessarily achieve an emissions reduction, because for the  
6 foreseeable future, the electric utilities will continue to heavily rely on natural gas use for  
7 power generation.<sup>323</sup> Importantly, NW Natural remains committed to decarbonizing its  
8 system, including cost-effective energy efficiency, decarbonized fuels, and solutions that  
9 leverage the strengths of both the natural gas and the electric systems, such as hybrid  
10 heating and ground source heat pumps.<sup>324</sup> The Coalition, on the other hand, did not put  
11 forth any evidence that replacing natural gas equipment with an electric heat pump will  
12 actually achieve any emissions reduction.

13 The Coalition argues that “[h]eat pumps promote energy equity and  
14 affordability,”<sup>325</sup> and claims that NW Natural failed to provide compelling evidence that  
15 natural gas remains more affordable than electrification.<sup>326</sup> To support its point, the  
16 Coalition points to an article cited by NW Natural as support for the statement that  
17 “January 2024 data show that natural gas heat costs in Oregon are roughly 40 percent of  
18 the price of electric heat, on a per unit heat basis.”<sup>327</sup> Though the article was referenced  
19 in the Company’s testimony, it was not formally offered into the record, either by the

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<sup>322</sup> Coalition’s Closing Brief at 39-40.

<sup>323</sup> NW Natural’s Opening Brief at 104-105.

<sup>324</sup> NW Natural/2200, Kravitz/11-12.

<sup>325</sup> Coalition’s Opening Brief at 55.

<sup>326</sup> Coalition’s Opening Brief at 55.

<sup>327</sup> Coalition’s Opening Brief at 55; NW Natural/2300, Tanaka/46.

1 Coalition or the Company. The Coalition quotes another portion of the article stating that  
2 “heat pumps are even more efficient than natural gas cost-wise,”<sup>328</sup> but omits the full  
3 context stating that “heat pump efficiencies would be calculated in a different way and  
4 aren’t considered here.”<sup>329</sup> Thus, this article does not provide compelling evidence that  
5 installing an electric heat pump and taking electric service will necessarily reduce bills for  
6 customers in comparison with installation of a high-efficiency furnace and retaining  
7 natural gas service. The Coalition also provided an example of a customer who  
8 experienced energy savings from installing a heat pump, however the example did not  
9 provide a comparison of savings with a heat pump with a high-efficiency natural gas  
10 furnace.<sup>330</sup>

11 On the question of affordability, the Commission should consider the concerns  
12 raised by the Coalition regarding affordability in the context of both the energy efficiency  
13 benefits provided by OLIEE funding, which will reduce gas throughput for the customer  
14 and lower bills, together with the benefits available under the Company’s bill discount  
15 program, which provides a discount for energy burdened customers. In its Direct  
16 Testimony, the Company proposed to update its bill discount program to target and  
17 reduce the program participants’ gas usage-related energy burden to three percent of  
18 income or less.<sup>331</sup> To that end, the Company proposed to increase the deepest discount  
19 available to the lowest income customers, Tier 0 (0 – 15 percent of State Median Income),  
20 from 40 percent to 80 percent, and to increase available discounts for the second-lowest

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<sup>328</sup> Coalition’s Opening Brief at 55.

<sup>329</sup> NW Natural/2300, Tanaka/46; Anne Lauer, *Natural Gas Heat v. Electrical Heat - Which is Cheaper - 2024*, Shrink that Footprint (2024) (<https://shrinkthatfootprint.com/natural-gas-heat-vs-electrical-heat>).

<sup>330</sup> Coalition’s Opening Brief at 39.

<sup>331</sup> NW Natural/200, Tanaka/22-23.

1 income tier, Tier 1 (16-30 percent of State Median Income), from 25 percent to 40  
2 percent.<sup>332</sup> Through negotiations with the parties, these discounts were expanded  
3 further, and if the Second Stipulation is adopted, the discount level for Tier 0 will be set  
4 to 85 percent, for Tier 1, 50 percent, and for Tier 2 (31-45 percent of State Median  
5 Income), 30 percent.<sup>333</sup> If adopted, the Second Stipulation will alleviate the affordability  
6 concerns raised by the Coalition.

7 In sum, the OLIEE program as it currently exists provides energy efficient  
8 appliance upgrades, increases energy literacy, and improves the health and safety of the  
9 Company’s low-income customers and communities.<sup>334</sup> The upgrades to high-efficiency  
10 gas equipment, bolstered by weatherization and education efforts, have the effect of  
11 reducing gas usage and thereby GHG emissions. The OLIEE program, as it currently  
12 exists already accomplishes the goals of reducing GHG emissions and eliminating  
13 barriers to energy efficient appliances, and has the additional effect of providing energy  
14 savings for these customers.<sup>335</sup>

15 c. Allowing OLIEE to provide natural gas appliances strikes a balance  
16 between the interests of low-income customers and customers who  
17 are responsible for paying the public purpose charge.

18 The Coalition maintains that “allowing OLIEE funds to replace a furnace with a  
19 heat pump will benefit natural gas customers.”<sup>336</sup> But the Coalition only considers benefits  
20 to the individual customer who receives the OLIEE funds—under that scenario, the now  
21 former natural gas customer—and stops short of explaining any benefits to remaining

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<sup>332</sup> NW Natural/200, Tanaka/22-23.

<sup>333</sup> Second Stipulation at 6.

<sup>334</sup> NW Natural/200, Tanaka/26; NW Natural/2300, Tanaka/44-45; NW Natural/4500, Tanaka/12-13.

<sup>335</sup> NW Natural/2300, Tanaka/46; NW Natural/4500, Tanaka/15.

<sup>336</sup> Coalition’s Opening Brief at 55 (emphasis omitted).

1 natural gas customers. In fact, the Coalition itself acknowledges the *detriment* associated  
2 with removing customers from the gas system, stating that it “does not disagree” that  
3 “current customers face a difficult situation in the face of other households opting to  
4 electrify.”<sup>337</sup> While the Coalition shrugs off the question of harm to existing customers, the  
5 Company—and the Commission—must consider the potential benefits and harms to  
6 customers more broadly. It is poor public policy for customers who funded the public  
7 purpose charge to face higher system costs as a result of their contributions being used  
8 to electrify another customer.<sup>338</sup>

9         On the other hand, the existing program is balanced. Natural gas customers pay  
10 into a fund that is used to benefit all gas customers—with low-income customers  
11 benefitting through receiving weatherization and energy efficient gas appliances and  
12 customers who pay into the OLIEE fund benefitting from additional customers with whom  
13 they share system costs.<sup>339</sup> But this balance is eliminated if OLIEE funds can be used to  
14 reduce the number of customers on the system. Considering NW Natural’s customer  
15 base more broadly, there are no benefits accruing to *all* NW Natural customers from  
16 expanding the OLIEE program to fund electrification, and to the contrary, the Coalition’s  
17 proposed change will do active harm to the customers who fund OLIEE.<sup>340</sup>

18         In its Closing Brief, the Coalition asserts that the customer harm is minimal  
19 because overall participation in the OLIEE program is less than the Company’s annual  
20 growth.<sup>341</sup> This argument ignores the principle. Customer harm should not be shrugged

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<sup>337</sup> Coalition’s Opening Brief at 56.

<sup>338</sup> NW Natural/2300, Tanaka/44-45.

<sup>339</sup> NW Natural/2300, Tanaka/45; NW Natural/4500, Tanaka/9-10.

<sup>340</sup> NW Natural/2300, Tanaka/45.

<sup>341</sup> Coalition’s Closing Brief at 38.

1 off as *de minimis* when it is convenient to a party’s argument. In other contexts where  
2 the Commission considers a public interest standard (such as property transfer or affiliate  
3 interest approval), this standard means ***no harm***, not that some harm is to be accepted.<sup>342</sup>

4 d. Customer choice is best served by allowing OLIEE funds to be  
5 dedicated solely to offering gas appliances to low-income customers  
6 to balance the many programs that provide heat pump funding.

7 The Coalition maintains that “nothing in the law . . . prohibit[s] OLIEE funds to pay  
8 for an energy efficient heat pump instead of a furnace if the customer wants it.”<sup>343</sup>  
9 However, this argument ignores the various other sources of funding available for electric  
10 heat pumps. The Company addressed this issue in its Opening Brief, explaining that it  
11 makes little practical sense to divert funds that are dedicated for low-income customers  
12 to obtain high efficiency natural gas appliances, and given the many available sources for  
13 alternative funding for heat pumps, the Coalition asks the Commission to fill a gap in  
14 funding that does not exist—and also thereby reducing a more limited funding pool for  
15 low-income natural gas customers.<sup>344</sup>

16 e. The Commission should reject the Coalition’s alternative proposal of  
17 addressing low-income electrification in docket UM 2211.

18 In the alternative, the Coalition proposes that the Commission “address low-  
19 income electrification in a policy docket, such as UM 2211.”<sup>345</sup> The Company opposes  
20 this request. As the Company has detailed on the record in this case, the Coalition’s

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<sup>342</sup> See e.g., *In re Portland Gen. Elec. Co., Application for Approval of an Affiliated Interest Transaction with Portland Renewable Resource Co.*, Docket UI 461, Order No. 21-482, App. A at 2 (Dec. 22, 2021) (“The ‘fair and reasonable and not contrary to the public interest’ standard is customarily applied as a ‘no harm’ standard by the Commission.”).

<sup>343</sup> Coalition’s Closing Brief at 36.

<sup>344</sup> NW Natural’s Opening Brief at 102-103.

<sup>345</sup> Coalition’s Opening Brief at 47.

1 proposal would harm customers, and there is no reason to force a broader set of parties  
2 to develop the same record again in a different docket.

3 **F. Lobbying / Political Activities**

4 1. *NW Natural does not seek to recover lobbying expenses from its customers,*  
5 *and has already removed such expenses.*

6 The Coalition argues that NW Natural is seeking recovery of lobbying expenses  
7 and the Commission should disallow the entirety of NW Natural's Government Affairs  
8 expense because: (1) the Company's General Procedure is too narrow and does not  
9 include all political activities as defined 18 CFR § 367.4264;<sup>346</sup> and (2) because the  
10 Company's exception time tracking fails to provide the detailed reporting of political  
11 activities as directed by the Commission in Order No. 22-388.<sup>347</sup> The Coalition's  
12 arguments are misleading and without merit as the General Procedure properly guides  
13 employees in identifying political activities consistent with the definition of such activities  
14 in 18 CFR § 367.4264 and the Company's tracking of exception time provides the  
15 appropriate level of detail for the Commission and intervenors to review the exception  
16 time entries in compliance with Order No. 22-388. Moreover, the Coalition's  
17 recommendation is punitive, and should be rejected as inconsistent with Commission  
18 Order No. 22-388.

19 a. The Company's General Procedure appropriately defines lobbying  
20 activities.

21 The Coalition, contrary to the plain text of the General Procedure and the evidence  
22 in this proceeding, argues that NW Natural's General Procedure is too narrow for several

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<sup>346</sup> Coalition's Opening Brief at 37-43.

<sup>347</sup> Coalition's Opening Brief at 43-45.

1 reasons.<sup>348</sup> First, the Coalition argues that the General Procedure is limited to  
2 communications with a “legislative body.”<sup>349</sup> The Company addressed this argument in  
3 its Opening Brief,<sup>350</sup> explaining it is plainly incorrect and contrary to the plain text in the  
4 General Procedure, which states that “lobbying communications” also include  
5 communications with the intent to influence “any governmental official or employee who  
6 may participate in the formulation of legislation.”<sup>351</sup> The Coalition also claims that the  
7 definition of “lobbying communications” does “not provide the kinds of reassurances  
8 requested by the Commission in [docket] UG 435” because NW Natural artificially  
9 confines lobbying to only those activities concerning legislative matters.<sup>352</sup> Again, this is  
10 not the case. The Company has repeatedly confirmed that per its policy, lobbying  
11 communications are not limited to legislative matters, but also include communications  
12 intended to influence the general public, or any segment, with respect to elections or  
13 initiatives/referendums.<sup>353</sup> A lobbying communication must include an *intent to influence*  
14 and does not include communications intended to educate or inform, unless that  
15 communication also includes support or opposition.<sup>354</sup> Accordingly, the General  
16 Procedure does not by its plain text exclude properly defined lobbying communications  
17 as the Coalition claims.

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<sup>348</sup> Coalition’s Opening Brief at 37-38; Coalition’s Closing Brief at 26-27.

<sup>349</sup> Coalition’s Opening Brief at 37-38.

<sup>350</sup> NW Natural’s Opening Brief at 109-13.

<sup>351</sup> 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.

<sup>352</sup> Coalition’s Opening Brief at 38.

<sup>353</sup> NW Natural/1200, Williams/4.

<sup>354</sup> NW Natural/1200, Williams/4.

1           The Coalition also argues that the General Procedure excludes lobbying  
2 communications with regulators, such as the ODEQ and this Commission,<sup>355</sup> but again,  
3 that is incorrect. Those bodies are simply not included in the definition of a “legislative  
4 body.”<sup>356</sup> To be clear, the General Procedure does not define as lobbying appearances  
5 before such bodies where advocacy is in the normal course of the regulatory process. A  
6 heavily regulated utility like NW Natural must regularly participate in proceedings and  
7 present a position before a decisionmaker of a judicial, executive, or administrative body  
8 in a regulatory capacity, as an applicant, or in defending its operational actions before an  
9 adjudicator.<sup>357</sup> To the extent the Coalition is arguing that communications with the intent  
10 to influence the decisions of governing actors and administrative bodies as related to  
11 regulations and policies (which could include comments in a rulemaking process or  
12 participation in a committee for which the utility is expressly invited to participate), must  
13 in every circumstance constitute lobbying,<sup>358</sup> NW Natural strongly disagrees.<sup>359</sup> Such a  
14 broadening of the definition of lobbying is contrary to 18 CFR § 367.4264(b) despite the  
15 Coalition’s denial,<sup>360</sup> and would present a slippery slope and transform many activities  
16 recognized as regulatory activities into lobbying. As Staff stated in its Opening Brief, “NW  
17 Natural employees are sophisticated enough to identify when communications to

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<sup>355</sup> Coalition’s Opening Brief at 39; Coalition’s Closing Brief at 27-28.

<sup>356</sup> 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.

<sup>357</sup> See NW Natural/4600, Williams/6-7.

<sup>358</sup> Coalition’s Opening Brief at 36, 38.

<sup>359</sup> NW Natural/3300, Williams/13; NW Natural/4600, Williams/6-7.

<sup>360</sup> Coalition’s Opening Brief at 39.

1 [executive, judicial, and administrative bodies] are lobbying as opposed to merely  
2 informational or part of regulatory proceedings and advocacy.”<sup>361</sup>

3         The Coalition points to *Newman v. FERC*, 27 F4th 690, 702 (D.C. Cir. 2022) for  
4 the proposition that political expenditures include any activity that directly or indirectly  
5 could affect the decision of a public official and is not limited to decisions on proposed  
6 legislation.<sup>362</sup> However, the facts underlying *Newman* are very different from the facts  
7 present here before the Commission, and *Newman* does not support the Coalition’s  
8 proposal to disallow the entirety of the Company’s Government Affairs expense. The  
9 *Newman* case addressed actions encouraging public utility commissioners to issue  
10 certificates of public convenience and necessity (“CPCN”), and the conclusion to draw  
11 from *Newman* is that efforts to recruit and use third parties and the public outside the  
12 regular regulatory process—as an indirect lobbying arm of the utility—to influence a public  
13 official’s decision could constitute political lobbying.<sup>363</sup> In *Newman*, the Potomac-  
14 Appalachian Transmission Highline, LLC’s public relations contractors recruited and  
15 worked with prominent business and labor leaders in support of the CPCN application,  
16 ran promotional advertisements, and sent lobbyists to persuade state officials that the  
17 CPCNs should be granted.<sup>364</sup> NW Natural does not dispute that such actions would  
18 constitute lobbying, and would not seek recovery for such actions.

19         The Coalition further argues that NW Natural’s actions surrounding the April 16,  
20 2024 public hearing are an example, per *Newman*, of the Company using third parties to

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<sup>361</sup> Staff’s Opening Brief at 27.

<sup>362</sup> Coalition’s Opening Brief at 36.

<sup>363</sup> *Newman v. FERC*, 27 F4th at 697-98, 701-03.

<sup>364</sup> *Newman v. FERC*, 27 F4th at 693-94.

1 influence a policy outcome and constitute lobbying.<sup>365</sup> In particular, the Coalition points  
2 to NW Natural's response to Coalition Data Request No. 270 for the assertion that the  
3 Company "admits that it solicited these organizations to participate in the public  
4 hearing."<sup>366</sup> To be clear, the Coalition asked NW Natural whether it had corresponded  
5 with certain named organizations regarding participation in the April 16, 2024 public  
6 hearing,<sup>367</sup> and the Company answered that it had *informed* some of the listed  
7 organizations *of the opportunity to participate* in the public hearing and to provide  
8 comments in this proceeding.<sup>368</sup> Again, the Coalition provides a misleading framing of the  
9 event as well as the Company's response to Coalition Data Request No. 270. The  
10 Company did not *request* any of the contacted groups to participate on the Company's  
11 behalf or even in support of the LEA policy.<sup>369</sup> The Company simply provided information  
12 to its customers and customer representatives about an opportunity for engagement in a

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<sup>365</sup> Coalition's Opening Brief at 41-43; Coalition's Closing Brief at 27-28.

<sup>366</sup> Coalition's Opening Brief at 41 & n.188; Coalition's Closing Brief at 27-28. The Coalition also argues that "throughout this proceeding, NW Natural has contradicted" its definition of lobbying, "most notably, with respect to its communications with homebuilders, chambers of commerce, and developers regarding the LEA and the Commission's public hearing on the topic." Coalition's Closing Brief at 27. This is not the case. NW Natural has repeatedly asserted that its informational communications with the listed customers and customer representatives did not constitute lobbying, but were a core utility function. NW Natural/3300, Williams/14-15; NW Natural/4600, Williams/25. However, in order to be conservative, the Company charged the expense related to the April 16, 2024 public meeting to another non-recoverable account. See *id.* The Coalition seems to mistake the Company's attempts at being overly conservative with an alleged misunderstanding of actions that constitute lobbying.

<sup>367</sup> Coalition/502, Apter-Connolly/1-2.

<sup>368</sup> Coalition/502, Apter-Connolly/3 ("Yes. NW Natural did correspond with some of the above-listed organizations (and other organizations not listed above) regarding participation in the public hearing on April 16, 2024, and/or submitting public comments for this rate case, UG 490. It is important that these stakeholders are aware of the regulatory process available to them in this rate case and the positions being taken by parties that may affect them, their businesses and their constituents. It is with these ideals in mind that NW Natural proactively undertakes informational engagement and education with organizations such as those listed above. Although NW Natural believes that such correspondence is part of its core utility functions for which ratepayer support would be appropriate, the Company is not seeking cost recovery in this rate case for any of its time or activities related to corresponding with any of the above-listed organizations regarding participation in the public hearing on April 16, 2024, and/or submitting public comments for this rate case, UG 490. The Company has booked such time and activities to a non-utility (i.e., below-the-line) Civic cost center (FERC account) for which it does not seek cost recovery.").

<sup>369</sup> NW Natural/3300, Williams/14-15; NW Natural/4600, Williams/25.

1 regulatory process, which it does regularly and does not constitute lobbying.<sup>370</sup> In fact, in  
2 response to Coalition Data Request No. 270, the Company explained that:

3 It is important that these stakeholders are aware of the regulatory process  
4 available to them in this rate case and the positions being taken by parties  
5 that may affect them, their businesses and their constituents. It is with these  
6 ideals in mind that NW Natural proactively undertakes informational  
7 engagement and education with organizations such as those listed  
8 above.<sup>371</sup>

9 The Coalition acknowledges, while NW Natural does not view such activities as  
10 lobbying, it did not book such actions to a recoverable account in an effort to be  
11 conservative.<sup>372</sup> The Coalition is not satisfied with this result as it argues that future similar  
12 activities *can* be charged to ratepayers under the Company’s lobbying policy and the  
13 Commission and stakeholders are “left with merely the claims” that the Company actually  
14 did book such activities below the line.<sup>373</sup> Critically, however, the Company’s  
15 representations are not merely claims, but sworn testimony that is part of the record.<sup>374</sup>  
16 Second, to the extent that the Coalition is worried about the Company’s future  
17 engagement with its customers or other customer representatives, not all of those actions  
18 are recoverable and/or constitute lobbying—every communication is circumstance  
19 dependent and cannot wholesale be categorized as lobbying, especially where the  
20 Company is simply acting in an informational capacity. Moreover, insofar as the Coalition  
21 is improperly and defamatorily speculating that “the Company seeks to avoid the  
22 Commission’s review of its communications to these customers by voluntarily foregoing

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<sup>370</sup> NW Natural/3300, Williams/14-15; NW Natural/4600, Williams/25.

<sup>371</sup> Coalition/502, Apter-Connolly/3.

<sup>372</sup> Coalition’s Opening Brief at 42.

<sup>373</sup> Coalition’s Opening Brief at 42; Coalition’s Closing Brief at 27-28.

<sup>374</sup> NW Natural/3300, Williams/15; NW Natural/4600, Williams/25-26.

1 recovery of any costs associated with the activity,”<sup>375</sup> there is no such evidence in the  
2 record especially where the Company has provided a detailed record of its exception time  
3 reporting and examples of communications with public officials that it deemed as  
4 recoverable.<sup>376</sup> The Coalition’s baseless accusation, without evidence, again underlies  
5 the punitive undercurrent of its entire proposal.

6         Additionally, based on information outside the record of this proceeding, the  
7 Coalition asserts that NW Natural solicited customers to oppose the revised CPP  
8 rulemaking.<sup>377</sup> NW Natural filed a motion to strike the portion of the Coalition’s briefs  
9 referring to this material, and asks that it be stricken or alternatively, given no weight. In  
10 the event the Commission is nonetheless inclined to consider this point, the Company  
11 notes that the Comfort Zone communication referenced in the article simply describes the  
12 CPP’s potential impact on gas bills and provides information on the proposed program,  
13 including opportunities for comment.<sup>378</sup>

14         Finally, the Coalition’s argument that lobbying occurs even when the utility is  
15 proactively providing information on its operations to legislators and public officials  
16 underscores the Coalition’s unprincipled and inconsistent arguments in this

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<sup>375</sup> Coalition’s Opening Brief at 42 n.193.

<sup>376</sup> See NW Natural/3300, Williams/18; Confidential NW Natural/3302, Williams; NW Natural/4600, Williams/15-16; NW Natural/4602, Williams (UG 490 NW Natural Response to the Coalition’s Data Request 169 and Confidential Attachment 1 (Office of the Mayor of Portland)); NW Natural/4603, Williams (UG 490 NW Natural Response to the Coalition’s Data Request 170 (Office of Portland City Commissioner Rene Gonzalez)); NW Natural/4604, Williams (UG 490 NW Natural Response to the Coalition’s Data Request 171 and Confidential Attachment 1 (Office of Portland City Commissioner Carmen Rubio)); NW Natural/4605, Williams (UG 490 NW Natural Response to the Coalition’s Data Request 172 and Confidential Attachment 1 (Office of Portland City Commissioner Mingus Mapps)); NW Natural/4606, Williams (UG 490 NW Natural Response to the Coalition’s Data Request 173 (Office of Portland City Commissioner Dan Ryan)); NW Natural/4607, Williams (UG 490 NW Natural Response to the Coalition’s Data Request 174 and Confidential Attachment 1 (Any elected official of the City of Eugene)).

<sup>377</sup> Coalition’s Opening Brief at 41-42, n.192; Coalition’s Closing Brief at 28.

<sup>378</sup> Coalition’s Opening Brief at 41-42, n.192; Coalition’s Closing Brief at 28.

1 proceeding.<sup>379</sup> The Coalition’s proposed broadening of lobbying is divorced from the  
2 actual meaning of political activities in 18 CFR § 367.4264 and as described by the  
3 Commission in Order No. 22-388,<sup>380</sup> and would as a practical matter discourage  
4 information and data sharing between utilities and legislators and public officials. If the  
5 Commission were to take the Coalition’s argument to its logical conclusion, even  
6 proactively providing information as required by regulation (which is not “responding” to  
7 government inquiries<sup>381</sup>), would count as lobbying and would not be recoverable.<sup>382</sup>  
8 Moreover, this argument is contrary to the Coalition’s reference to *Newman* for the point  
9 that “[t]he *purpose* of influencing decisions of public officials is the ‘touchstone’ and the  
10 ‘definitional boundary’ of the policy.”<sup>383</sup> Here, the Company and Coalition are in  
11 agreement—and that is why the Company’s General Procedure is based on *intent* to  
12 influence.<sup>384</sup> The fact that a communication is proactive versus reactive does not, in and  
13 of itself, make the communication a political activity.<sup>385</sup> For the reasons enumerated

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<sup>379</sup> Coalition’s Opening Brief at 40; Coalition’s Closing Brief at 28-29.

<sup>380</sup> Order No. 22-388 at 23 (“[W]e agree with NW Natural that communications intended purely to ensure that public officials are receiving routine information about the company and the gas system do not qualify as lobbying expenses[.]”).

<sup>381</sup> Coalition’s Opening Brief at 40.

<sup>382</sup> NW Natural/4600, Williams/19-20. In its Closing Brief, the Coalition now argues that providing information and “educating” public officials with information “they did not request and is not required by law for the Company to provide,” is often made with the intent to influence the decisionmaker. Coalition’s Closing Brief at 29. The Company has already clarified that a lobbying communication must include an *intent to influence* and does not include communications intended to educate or inform, *unless that communication also includes support or opposition*. NW Natural/1200, Williams/4. The Coalition seems to be assuming an intent to influence even where there is none based on the fact that the informational communication is proactive.

<sup>383</sup> Coalition’s Opening Brief at 36 (citing *Newman v. FERC*, 27 F4th at 697–98).

<sup>384</sup> Notably, although the Coalition asserts that “many of NW Natural’s communications went ‘well beyond’ informational purposes and had intent to influence,” it fails to provide *any* examples of such communications from the record. Coalition’s Closing Brief at 28-29.

<sup>385</sup> NW Natural/4600, Williams/20.

1 above, the Commission should reject the Coalition’s efforts to expand the definition of  
2 lobbying outside of 18 CFR § 367.4264 and its decision in Order No. 22-388.

3 b. The Company’s exception time reporting is sufficiently detailed, and  
4 the Commission should not require NW Natural to report time spent  
5 engaging in recoverable activities.

6 The Coalition also critiques the Company’s exception time reporting, charging that  
7 it is not adequately detailed.<sup>386</sup> Concerning the Coalition’s complaint that certain entries  
8 include blank memo notations,<sup>387</sup> the Company addressed this argument in its Opening  
9 Brief, explaining that while some of its exception time notations in the “notes” field were  
10 blank, a “blank” field note entry is not indicative of a lack of exception time tracking, and  
11 instead provides evidence that employees did track their time and that only a minority of  
12 the 2,263 entries did not provide information in the “note” field.<sup>388</sup> Moreover, the Company  
13 has committed to continuing to review and refine its General Procedure and how its  
14 employees implement the policy in the future in order to address this sort of minor  
15 discrepancy, which is not unusual in starting up a completely new tracking process.<sup>389</sup>  
16 With respect to the Coalition’s argument that NW Natural’s exception time reporting is  
17 inadequate because it does not include time spent proactively providing public officials  
18 with information and data about the Company’s operations,<sup>390</sup> the Company again  
19 disagrees with the Coalition’s interpretation of Order No. 22-388, which explicitly provided  
20 that “communications intended purely to ensure that public officials are receiving routine

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<sup>386</sup> Coalition’s Opening Brief at 43-45; Coalition’s Closing Brief at 30-32.

<sup>387</sup> Coalition’s Opening Brief at 44; Coalition’s Closing Brief at 31-32.

<sup>388</sup> NW Natural’s Opening Brief at 117-18.

<sup>389</sup> NW Natural/3300, Williams/26-27.

<sup>390</sup> Coalition’s Opening Brief at 44.

1 information about the company and the gas system do not qualify as lobbying  
2 expenses[.]”<sup>391</sup>

3         The Coalition also argues that the Commission should require NW Natural to “track  
4 its employees’ non-expected time[.]”<sup>392</sup> The Company addressed this argument in its  
5 Opening Brief,<sup>393</sup> explaining that to NW Natural’s knowledge, no utility tracks time for its  
6 core utility activities, and to do so discriminately here would be a sharp departure from  
7 prior Commission practice, a major burden on the Company’s employees, and would  
8 increase costs to customers.<sup>394</sup> Furthermore, the record in this case includes  
9 representative sampling of correspondence with public officials that constitutes core utility  
10 practice and is recoverable.<sup>395</sup> Accordingly, the Commission and stakeholders have  
11 sufficiently detailed evidence and records on exception time reporting in this case to  
12 assess whether NW Natural was engaging in political activities. The Commission should  
13 therefore reject the Coalition’s proposal that NW Natural be required to track and report  
14 time spent engaging in recoverable activities.

15         Finally, the Coalition contends that the Commission should impose additional  
16 annual reporting requirements that go far beyond the issue of lobbying in this proceeding,  
17 such as reporting regarding the Company’s litigation practices and contributions to non-  
18 profits.<sup>396</sup> The Company addressed this argument in its Opening Brief, clarifying that such

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<sup>391</sup> Order No. 22-388 at 23; *see also* NW Natural/4600, Williams/19-20.

<sup>392</sup> Coalition’s Opening Brief at 44; Coalition’s Closing Brief at 32-33.

<sup>393</sup> NW Natural’s Opening Brief at 118-19.

<sup>394</sup> NW Natural/4600, Williams/14; NW Natural/3300, Williams/17-18.

<sup>395</sup> NW Natural/4600, Williams/14-16.

<sup>396</sup> Coalition’s Closing Brief at 33-34. To be clear, the Company already reports donations (i.e., contributions to charitable organizations) and memberships to the Commission. *See, e.g., In re NW Natural Gas Company dba NW Natural 2011 FERC Form 2 with Oregon Supplement*, Docket RG 37, NW Natural’s FERC Form 2 with Oregon Supplement for Year Ending December 31, 2023 with Annual Report to

1 practices are not required by Oregon statute as is the case in the handful of examples  
2 provided by the Coalition, and that such practices would in fact be burdensome,  
3 expensive, and time-consuming and are not supported by the record in this case.<sup>397</sup> The  
4 fact that another state may have implemented such a requirement does not mean it is not  
5 burdensome. To the extent the Coalition is suggesting that Oregon should adopt similar  
6 laws, this rate case proceeding is not the proper venue to entertain legislative proposals.

7 In sum, NW Natural created a robust policy that follows the Commission’s request  
8 in Order No. 22-388, and the Company has provided the required time tracking in Exhibit  
9 NW Natural/3302, Williams.<sup>398</sup> The Company has made substantial efforts to comply with  
10 the Commission’s expectations, recognizing that the Company commits to continuing to  
11 review and refine its General Procedure and how it is implemented by the Company’s  
12 employees.<sup>399</sup> Implementing a new procedure involves a learning curve and excluding  
13 the Government Affairs expense because of minor discrepancies would be punitive and  
14 inappropriate. Accordingly, the Commission should reject the Coalition’s<sup>400</sup>—and now  
15 Staff and AWEC’s—proposal to disallow the Government Affairs department budget.

16 2. *The overall revenue requirement in the Second Stipulation has no bearing*  
17 *on the recoverability of the Government Affairs team expense for time spent*  
18 *engaging in core utility functions.*

19 Staff and AWEC argue that the Commission should adopt the Coalition’s  
20 recommendation to disallow NW Natural’s Government Affairs expense because the  
21 \$95 million revenue requirement in the Second Stipulation is “within the range of

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Shareholders at 243-46 of 466 (Apr. 29, 2024). Accordingly, the Coalition’s recommendations with respect to this requirement is both unnecessary and would represent burdensome duplication of efforts.

<sup>397</sup> NW Natural’s Opening Brief at 119-20.

<sup>398</sup> NW Natural/4600, Williams/18.

<sup>399</sup> NW Natural/4600, Williams/18.

<sup>400</sup> Coalition’s Opening Brief at 45-46.

1 reasonableness” and does not address that expense.<sup>401</sup> AWEC in particular makes an  
2 unfounded argument that because the Second Stipulation “already assumes” the  
3 Government Affairs expenses “have been disallowed,” the Commission should adopt the  
4 Coalition’s proposal.<sup>402</sup> While AWEC does not address the merits of the Coalition’s  
5 arguments, Staff states that it now “supports the Coalition’s extensive analysis showing  
6 why exclusion of Government Affairs costs is appropriate as a policy matter.”<sup>403</sup>

7 First, AWEC’s assertion that Government Affairs expense has been disallowed is  
8 incorrect and contrary to the terms of the Second Stipulation. The Second Stipulation  
9 explicitly stated that the Coalition lobbying expense adjustment of (\$1,725,922) was not  
10 included in the agreed upon revenue requirement amount and any amounts approved for  
11 recovery by the Commission would be in addition to the revenue requirement increase of  
12 \$95 million.<sup>404</sup> This approach was **necessary** because the Second Stipulation was joined  
13 by all parties, and thus it would not be appropriate to include the Government Affairs  
14 expense in the stipulated revenue requirement where the Coalition also sought to remove  
15 the entirety of that expense. To address this issue, the parties excluded this amount from  
16 the stipulated revenue requirement, but **did not** assume the amounts were disallowed.  
17 Instead, the excluded amounts were a “jump ball”—outside of the Second Stipulation,  
18 and still affirmatively proposed by the Company and disputed by the Coalition at the time  
19 the Second Stipulation was filed (and now by AWEC and Staff as well). There was no  
20 presumption that this expense was disallowed.

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<sup>401</sup> Staff’s Opening Brief at 26; AWEC’s Opening Brief at 6.

<sup>402</sup> AWEC’s Opening Brief at 6.

<sup>403</sup> Staff’s Opening Brief at 26.

<sup>404</sup> Second Stipulation at 7.

1           Indeed, AWEC’s position is undercut by Staff’s acknowledgement that the  
2 \$95 million revenue requirement increase “does not include \$1,725,922 of Government  
3 Affairs costs included in [NW Natural]’s original revenue requirement request and that  
4 [NW Natural]’s recovery of this amount must be separately decided by the  
5 Commission.”<sup>405</sup> Furthermore, Staff’s reliance on the \$95 million revenue requirement in  
6 the Second Stipulation as being “within the range of reasonableness,” has no bearing on  
7 whether recovery is appropriate for the Government Affairs team expenses for time spent  
8 engaging in core utility functions.

9           Second, while both Staff and AWEC have adopted the Coalition’s proposal **now**,  
10 neither endorsed the Coalition’s proposal in testimony. Staff’s about-face on this issue is  
11 not supported by their prior testimony or their responses to discovery on this matter. In  
12 Staff’s Opening Testimony, Staff witness Paul Rossow asserted that “Staff reviewed [NW  
13 Natural]’s Direct Testimony, issued Data Request Nos. 341 – 351, and analyzed NW  
14 Natural’s transactional data in its response to Standard Data Request No. 57 and  
15 proposed an adjustment of \$11,572 for the Test Year.<sup>406</sup> In its Rebuttal Testimony, Staff  
16 confirmed its recommended adjustment of \$11,572—and **did not** adopt the Coalition’s  
17 recommended adjustment.<sup>407</sup> Additionally, NW Natural sought to clarify Staff’s position  
18 concerning the General Procedure, and just a little over a month ago—on July 31, 2024—  
19 Staff provided further clarity regarding its recommendation and specifically stated that it  
20 did not intend for the exception time reporting to capture regulatory activities.<sup>408</sup> And yet,

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<sup>405</sup> Staff’s Opening Brief at 26.

<sup>406</sup> Staff/1700, Rossow/4.

<sup>407</sup> Staff/4000, Rossow/3.

<sup>408</sup> NW Natural/5100.

1 despite its analysis, recommended adjustment, apparent ambivalence toward the  
2 Coalition’s arguments in both rounds of testimony, and on-going work to refine its  
3 recommendation, Staff now agrees with the Coalition’s proposal to remove all  
4 Government Affairs expense, without any substantive analysis or reasoning for its  
5 reversal.<sup>409</sup>

6           It is also procedurally unfair for Staff to change its position in briefing, because NW  
7 Natural did not seek to cross-examine Staff on this issue after relying on Staff’s revised  
8 statement of its position, provided on July 31, 2024.<sup>410</sup> Importantly, it is unclear exactly  
9 what aspects of the Coalition’s argument Staff supports—other than the amount of the  
10 adjustment. By joining the Coalition’s arguments, it would appear that Staff’s position is  
11 that recovery of any Government Affairs expense is inappropriate as a matter of policy.<sup>411</sup>  
12 But Staff recently clarified that it did not believe that exception time reporting should apply  
13 to regulatory activities<sup>412</sup>—which is contrary to the position that all Government Affairs  
14 expense should be removed. Had the Company known of Staff’s reversal on this issue,  
15 the Company would have sought to cross-examine Staff. Accordingly, Staff’s reversal  
16 here should be given little if any weight. Moreover, Staff’s position here disregards the  
17 Commission’s prior findings in Order No. 22-388 concluding that NW Natural could  
18 recover for Government Affairs expenses tied to non-lobbying activities where the utility  
19 was acting in an informational capacity.<sup>413</sup>

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<sup>409</sup> Staff’s Opening Brief at 26.

<sup>410</sup> NW Natural/5100.

<sup>411</sup> Staff’s Opening Brief at 26.

<sup>412</sup> NW Natural/5100.

<sup>413</sup> Order No. 22-388 at 23-24.

1           Moreover, if the Commission were to accept Staff’s endorsement of the Coalition’s  
2 arguments here and disallow the entire Government Affairs team budget regardless of  
3 the fact that NW Natural has provided detailed exception time reporting as discussed  
4 below, then the reporting requirement itself and Staff’s recommendation regarding the  
5 General Procedure—which the Company agreed to implement in its Opening Brief to  
6 address any concerns that the General Procedure is too narrow<sup>414</sup>—would be rendered  
7 superfluous. That is, if there is no Government Affairs expense recovered in rates, there  
8 is no need for exception time reporting for this department. For these reasons, the  
9 Commission should reject the proposal to disallow NW Natural’s Government Affairs  
10 expense for properly recoverable activities.

11 **G.    Rate Shock**

12           1.    *CUB’s proposed rate shock mechanism is illegal and contrary to*  
13                *Commission precedent.*

14           CUB argues that the Commission has authority to impose a suite of rate shock  
15 mechanisms because the Commission is charged with representing utility customers, and  
16 asserts the Commission—pursuant to *Hope*—has flexibility in the processes and methods  
17 used to determine just and reasonable rates.<sup>415</sup> While NW Natural does not disagree that  
18 the Commission is tasked with balancing the interest of utilities and utility customers and  
19 has flexibility in the ways in which it **determines** whether rates are just and reasonable,  
20 *Hope* does not stand for the proposition that the Commission can determine that rates  
21 are *fair, just and reasonable* and then delay recovery of such rates without a deferral

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<sup>414</sup> NW Natural’s Opening Brief at 111-12.

<sup>415</sup> CUB’s Opening Brief at 8-10; CUB’s Closing Brief at 13-17.

1 under ORS 757.259(2) and the interest prescribed under ORS 757.259(4).<sup>416</sup> Rather,  
2 *Hope* stands for the proposition that if “the total effect of the rate order cannot be said to  
3 be unjust and unreasonable, judicial inquiry under the [Natural Gas Act] is at an end” and  
4 the ways in which the Commission comes to that conclusion are afforded deference.<sup>417</sup>

5 Contrary to CUB’s reading, the Court **did not** find that the Commission could  
6 employ a variety of ratemaking tools to “reach a just and reasonable result” irrespective  
7 of the rates themselves.<sup>418</sup> This confuses the “just and reasonable” rates standard with a  
8 new standard proposed by CUB: that rates are legally not just and reasonable “if  
9 customers cannot afford their utility bills.”<sup>419</sup> To be clear, under the “just and reasonable”  
10 rates standard, the Commission sets rates within a reasonable range that must protect  
11 the competing interests of the utility and its customers.<sup>420</sup> To protect customers, the rates  
12 must be set at a level sufficiently low to avoid unjust and unreasonable exactions.<sup>421</sup> At  
13 the same time, to protect the utility, “a utility’s authorized rate of return, and the resulting

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<sup>416</sup> *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 US 591, 605 (1944) (“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.”); see also *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.”); Order No. 08-487 at 38-42 (describing limited statutory exceptions to the rule against retroactive ratemaking and determining that “[o]nce the Commission determines that overall rates are unjust and unreasonable or unjustly discriminatory,” the Commission’s “delegated authority is broad enough to include the authority to protect customers by ordering a utility to issue refunds”).

<sup>417</sup> *Hope Nat. Gas Co.*, 320 US at 602 (holding that the Commission was not bound to the use of any single formula or combination of formulae in determining rates) and 615 (“We certainly cannot say that [the rates are inadequate], unless we are to substitute our opinions for the expert judgment of the administrators to whom Congress entrusted the decision.”).

<sup>418</sup> CUB’s Opening Brief at 9.

<sup>419</sup> CUB’s Opening Brief at 11.

<sup>420</sup> *Hope Nat. Gas Co.*, 320 US at 603 (“The rate-making process..., i.e., the fixing of ‘just and reasonable’ rates, involves a balancing of the investor and the consumer interests.”).

<sup>421</sup> Order No. 08-487 at 5.

1 overall rates,” must be sufficient to maintain the utility’s operating expenses and “financial  
2 integrity, allow the utility to attract capital under reasonable terms, and be commensurate  
3 with returns investors could earn by investing in other enterprises of comparable risk.”<sup>422</sup>  
4 If the rates “do[] not afford sufficient compensation, the State has taken the use of the  
5 utility property without paying just compensation[,]” and such rates are confiscatory and  
6 violate the Fifth and Fourteenth Amendments.<sup>423</sup> With respect to customer interests, the  
7 question is whether customers would be paying more than what the utility has  
8 demonstrated is justified to cover its prudently incurred costs.

9         Moreover, the energy burden consideration raised by CUB and Staff is best  
10 addressed through more targeted programs—which already exist within the  
11 Commission’s statutory authority. For example, House Bill (“HB”) 2475,<sup>424</sup> provided the  
12 Commission with authority to set differential rates and to implement bill discount  
13 programs. Since NW Natural’s last general rate case, NW Natural has established a

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<sup>422</sup> *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).

<sup>423</sup> *Duquesne Light Co. v. Barasch*, 488 US 299, 308 (1989); see also *Pac. 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.*, 262 US at 690 (“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 at 547 (“What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience.”).

<sup>424</sup> ORS 757.695(1) (“In addition to comprehensive classifications, tariff schedules, rates and bill credits, the Public Utility Commission may address the mitigation of energy burdens through bill reduction measures or programs that may include, but need not be limited to, demand response or weatherization.”).

1 residential bill discount program,<sup>425</sup> which the parties to this proceeding have agreed to  
2 enhance as part of the Second Stipulation, providing significant rate mitigation for energy  
3 burdened customers.<sup>426</sup> While CUB raises concerns about affordability, instead of  
4 targeting customers that face hardship paying their utility bills, CUB’s proposal would  
5 generically cover all customers—even if they did not have any difficulty at all in paying  
6 their bills. In short, to echo CUB’s example from its Closing Brief, CUB is taking a stick of  
7 dynamite to go fly-fishing.<sup>427</sup> This is not appropriate in ratemaking, and the existing  
8 mechanisms such as the bill discount program are more appropriately tailored to  
9 addressing energy burden for customers that have difficulty affording their utility bills.

10 In its Opening Brief, NW Natural referred to deferrals, which are allowed under  
11 ORS 757.259(2), and are an authorized exception to the standard against retroactive  
12 ratemaking.<sup>428</sup> This is not a “coy” suggestion as CUB implies in its Closing Brief,<sup>429</sup> but  
13 rather an available ratemaking tool within the Commission’s statutory authority. To be  
14 clear, the Company is not suggesting that the Commission should employ a perennial  
15 deferral to address CUB’s concerns about rate shock, but instead, the Company pointed  
16 out in testimony that in an anomalous event when commodity prices spiked in 2022 after  
17 the outbreak of the Ukraine war, NW Natural and CUB agreed to defer a portion of the  
18 PGA until the end of the winter heating season.<sup>430</sup> Furthermore, it was CUB, *not NW*  
19 *Natural*, who introduced the use of a deferral as a ratemaking tool in this case, and in fact

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<sup>425</sup> NW Natural/200, Tanaka/15.

<sup>426</sup> Second Stipulation at 6-7.

<sup>427</sup> CUB’s Closing Brief at 10.

<sup>428</sup> NW Natural’s Opening Brief at 130.

<sup>429</sup> CUB’s Closing Brief at 12.

<sup>430</sup> NW Natural/2200, Kravitz/36.

1 suggested that it be a part of CUB’s proposal,<sup>431</sup> although CUB’s position evolved in  
2 rebuttal to instead focus exclusively on delayed implementation of rates.<sup>432</sup> Moreover, to  
3 the extent CUB argues that customers would be paying more under a deferral than  
4 without a rate shock mechanism,<sup>433</sup> CUB ignores the time value of money and that the  
5 Company must be allowed to recover the portion of its costs already deemed prudent.<sup>434</sup>

6 To the extent CUB now contends that a delay without interest is more appropriate  
7 than a deferral to incentivize NW Natural to control non-gas costs,<sup>435</sup> this argument is  
8 inconsistent with cost-of-service ratemaking for setting rates in the Test Year. The parties  
9 agreed upon a revenue requirement to be collected in the Test Year. In traditional  
10 ratemaking utilities are incentivized to manage costs, and to the extent that the utility’s  
11 costs are greater than the cost of service in the Test Year, the utility is forced to absorb  
12 those costs. CUB’s proposal eviscerates the incentive built into cost-of-service  
13 ratemaking and replaces it with a punitive mechanism that simply disallows recovery of  
14 costs for a period of time. It is illogical to force utilities to manage costs lower than the  
15 costs established in rates. This would require the utility to immediately cut costs in  
16 November that were deemed prudent in a rate case order issued in October.

17 a. A delay or phase in of rates would effectively amount to an illegal  
18 deferral without interest and an unconstitutional taking.

19 CUB also argues that the Commission can order a rate effective date and a  
20 subsequent rate effective date that “would co-exist.”<sup>436</sup> This is unlawful. **Once the**

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<sup>431</sup> CUB/100, Jenks/5.

<sup>432</sup> CUB/300, Jenks/4-5.

<sup>433</sup> CUB’s Closing Brief at 12.

<sup>434</sup> Order No. 08-487 at 70-71; NW Natural/4400, Kravitz/22.

<sup>435</sup> CUB’s Opening Brief at 16; CUB’s Closing Brief at 12-13.

<sup>436</sup> See CUB’s Opening Brief at 11-12.

1 **Commission concludes that rates are just and reasonable**, it cannot delay or phase  
2 in rates such that the utility cannot recover its prudently incurred costs and be made  
3 whole.<sup>437</sup> For example, the Commission considered the balance between the utility and  
4 customers when it determined how to allow PGE to recover a portion of undepreciated  
5 investment in its retired Trojan nuclear generating facility. The Commission  
6 acknowledged the “time value of money” to the utility, stating that delayed recovery would  
7 cause PGE to under-recover its investment, and concluded that proposals to delay  
8 recovery without interest “would require [the] Commission to disregard its statutory duty  
9 to balance the interests of customers and the utility.”<sup>438</sup> CUB’s proposal here would upend  
10 the balance between the interests of utilities and their customers. CUB’s claim that it “is  
11 not asking the Commission to limit prudently incurred costs a utility can recover, only that  
12 it is just and reasonable to mitigate rate shock to NW Natural’s residential customers by  
13 phasing in those rate increases”<sup>439</sup> lays bare CUB’s misunderstanding of the way in which  
14 the “just and reasonable” rates standard works,<sup>440</sup> and CUB’s failure to acknowledge the

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<sup>437</sup> See *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.).

<sup>438</sup> Order No. 08-487 at 70-71.

<sup>439</sup> CUB’s Opening Brief at 11.

<sup>440</sup> For example, with respect to the “just and reasonable” rates standard, CUB states that “[i]t is an unjust and unreasonable practice to place this burden on customers” and that the “Commission can justly and reasonably implement rate increases” (CUB’s Opening Brief at 11); however, as discussed above, the “just and reasonable” rates standard refers to the rates themselves, and does not consider affordability.

1 ultimate fact that its proposal to delay and phase in just and reasonable rates without  
2 charging interest is an unconstitutional taking.<sup>441</sup>

3 As NW Natural explained in its Opening Brief, CUB’s first recommendation to delay  
4 recovery of NW Natural’s rates from November 1, 2024 to April 1, 2025 would effectively  
5 amount to an illegal deferral without interest and an unconstitutional taking under the  
6 *Hope* and *Bluefield* standard.<sup>442</sup> This delay effectively disallows prudently incurred costs  
7 between November 1, 2024 and March 31, 2025, reducing the revenue that the Company  
8 would receive during the winter heating season with no possibility of subsequent cost  
9 recovery of those amounts through a deferral.<sup>443</sup>

10 In its Closing Brief, CUB asserts that “it’s not lost on CUB that [NW Natural] accrues  
11 higher revenues in the winter than in other months.”<sup>444</sup> But it seems to be. Regardless  
12 of the exact timing of the rate effective date, NW Natural—under the current volumetric-  
13 weighted rate design—will always collect the largest share of its annual revenue  
14 requirement in the winter months. In other words, if the Company filed its rate case a few  
15 months earlier, the winter months could theoretically be at the end of the Test Year, but

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<sup>441</sup> If the rates “do[] not afford sufficient compensation, the State has taken the use of the utility property without paying just compensation[,]” and such rates are confiscatory and violate the Fifth and Fourteenth Amendments. *Duquesne Light Co. v. Barasch*, 488 US at 308; *see also Pac. Tel. & Telegraph v. Wallace*, 158 Or at 224 (“[T]he constitution fixes limits to the rate-making power by prohibiting...the taking of private property without just compensation.”); *Hammond Lumber Co.*, 96 Or at 604-05 (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.*, 262 US at 690 (“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 at 547 (“What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience.”).

<sup>442</sup> NW Natural’s Opening Brief at 130-135.

<sup>443</sup> NW Natural/4400, Kravitz/23.

<sup>444</sup> CUB’s Closing Brief at 14.

1 the bulk of the Company’s revenue requirement would be collected at that time. If the  
2 concern is seasonal bills, the Company’s equal pay program is tailored for this exact  
3 concern. Alternatively, incrementally moving toward a higher fixed charge, which the  
4 Company has proposed in this rate case, will also address this concern.

5 In this case, the Commission will set rates with an assumed rate effective date of  
6 November 1, 2024, and delaying recovery of some of those costs for six months would  
7 lead to the Company receiving less revenue during the Test Year than assumed when  
8 rates were set, denying the Company an opportunity to earn a reasonable return.<sup>445</sup>  
9 Moreover, delaying rate increases prevents utilities from timely recovering prudently  
10 incurred costs that are necessary to provide essential services,<sup>446</sup> which is contrary to the  
11 regulatory compact where utilities agree to economic regulation by the Commission in  
12 exchange for the opportunity to timely recover prudently incurred costs, plus a fair return  
13 on investment, and for an exclusive service area.<sup>447</sup> Finally, CUB’s proposal to delay  
14 recovery of prudently incurred costs would violate Oregon law prescribing the 10-month  
15 suspension period for rate cases.<sup>448</sup>

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<sup>445</sup> NW Natural/4400, Kravitz/23.

<sup>446</sup> Although the interests of customers and investors are competing, they are also interrelated and reinforcing; a utility cannot provide adequate service to customers without the ability to attract capital. Order No. 08-487 at 6.

<sup>447</sup> See NW Natural/4400, Kravitz/27 (“For-profit utilities were allowed to operate as protected monopolies in defined geographic service areas (territories) in exchange for consenting to serve all customers at a price calculated to cover operating costs plus a reasonable return on the capital invested. This is known as the ‘regulatory compact.’ The core elements of the regulatory compact remain in place in Oregon today.”); 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 Sept. 2, 2024).

<sup>448</sup> 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”).

1 CUB further argues that “setting the rate at a level that is not lower than the lowest  
2 reasonable rate does not deny [NW Natural] an opportunity to earn a reasonable  
3 return.”<sup>449</sup> While the Company agrees that setting *sufficiently low rates to avoid unjust*  
4 *and unreasonable exactions* meets the *Hope* and *Bluefield* standards for reasonable  
5 rates,<sup>450</sup> that is not what CUB’s proposal would accomplish. CUB proposes that even  
6 when the Commission makes a finding that the utility’s rate request is at a sufficiently low  
7 level to constitute just and reasonable rates, if that amount is above CUB’s proposed  
8 threshold, then the rate increase would be delayed without interest, and the ROE would  
9 be adjusted to its lowest level within a reasonable identified range.<sup>451</sup> In this case, for  
10 example, if the ROE were set at its “lowest level” assuming a rate effective date of  
11 November 1, 2024, then the Company would likely have little to no opportunity to actually  
12 earn this ROE because it would receive less revenue than forecasted ***due to a portion***  
13 ***of the rate increase actually taking effect on April 1, 2025.***<sup>452</sup> In this way, CUB is  
14 incorrect that the Company would have an opportunity to earn a reasonable return.<sup>453</sup> As  
15 the Company explained in its Opening Brief, the level of a utility’s rate request, or its  
16 revenue requirement, is not a factor that affects the cost of equity; therefore, it should  
17 have no bearing on how ROE is determined.<sup>454</sup>

18 Finally, in its Closing Brief, AWEC also questions whether the Commission can  
19 adopt and find that rates are *fair, just and reasonable* on the rate effective date, and then

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<sup>449</sup> CUB’s Closing Brief at 15.

<sup>450</sup> CUB’s Closing Brief at 15; see also *Hope Nat. Gas Co.*, 320 US at 600.

<sup>451</sup> CUB’s Closing Brief at 15.

<sup>452</sup> NW Natural/4400, Kravitz/24.

<sup>453</sup> CUB’s Closing Brief at 15.

<sup>454</sup> NW Natural’s Opening Brief at 133-35; NW Natural/4400, Kravitz/25.

1 delay collection of a portion of those rates to some point in the future without a deferral  
2 and without justification.<sup>455</sup>

3 b. There is no statute or Commission precedent that supports CUB's  
4 proposal.

5 CUB points to no statute or Commission precedent addressing rate shock that  
6 would support its proposed mechanism. CUB challenges the Company's "assumption"  
7 that the Commission's authority is so limited that it cannot consider rate shock in the  
8 context of the revenue requirement and instead may only consider rate shock in the  
9 limited scope of rate spread and rate design,<sup>456</sup> but CUB ignores the fact that this principle  
10 is not the Company's "assumption" but standing Commission precedent.<sup>457</sup> CUB refers to  
11 Order No. 01-988 as "infamous,"<sup>458</sup> but the Commission has not upset the principle  
12 enumerated in that Order for 23 years. To get around settled Commission precedent,  
13 CUB simply relies on the testimony of one former Commissioner on a bill that did not pass  
14 for support of similar mechanisms.<sup>459</sup> No matter how credible the witness, one witness's  
15 testimony does not supersede the relevant statutory scheme and established precedent  
16 from Oregon courts and the Commission.<sup>460</sup>

17 Importantly, where the Legislature has considered rate impact thresholds, it has  
18 balanced rate impacts with the utility's investments mandates. For example, HB 2021

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<sup>455</sup> AWEC's Closing Brief at 6-7.

<sup>456</sup> CUB's Closing Brief at 16.

<sup>457</sup> See Order No. 01-988 at 5.

<sup>458</sup> CUB's Closing Brief at 16.

<sup>459</sup> CUB's Opening Brief at 9-10.

<sup>460</sup> Note that in determining legislative intent, where the testimony consists of the views of a nonlegislator witness, such testimony often offers little, if any, insight into the intentions of the enacting Legislative Assembly. See *Mannelin v. Driver & Motor Vehicle Servs. Branch (DMV)*, 176 Or App 9, 18 n.9 (2001) (citing *State v. Guzek*, 322 Or 245, 260 (1995)). Where no legislation was ultimately adopted, it is not clear that testimony should be accorded any significance at all.

1 provides that “[u]pon a determination that the actual or anticipated cumulative rate impact  
2 calculated” “exceeds six percent of the annual revenue requirement for a year,” the  
3 Commission must provide an exemption from further compliance with the requirements  
4 of ORS 469A.400 to 469A.475 that is narrowly tailored and limited in duration to only such  
5 time as is necessary to allow for additional investments and actual or forecasted costs to  
6 be made or incurred without exceeding the cumulative rate impact.<sup>461</sup> Similarly, Senate  
7 Bill (“SB”) 98 provides that if a large natural gas utility’s total incremental annual cost to  
8 meet the targets of the large renewable natural gas program exceeds five percent of the  
9 large natural gas utility’s total revenue requirement for an individual year, the large natural  
10 gas utility is no longer authorized to make additional qualified investments under the large  
11 renewable natural gas program for that year without approval from the Commission.<sup>462</sup>  
12 The takeaway here is that in both statutes, instead of delaying *recovery* for investments,  
13 the laws contemplate that compliance may be suspended or revisited by the Commission  
14 (and the utility would pause making investments for compliance). This suggests that  
15 where the Oregon Legislature has contemplated addressing rate impacts, it did not do so  
16 by forcing the utility to suffer an unjustified disallowance and regulatory lag.

17           2.     *After reflecting the results of the Second Stipulation and PGA, CUB’s rate*  
18                    *shock proposal is moot with respect to the record in this proceeding.*

19           As the Company explained in its Opening Brief, even if the Commission were to  
20 accept CUB’s rate increase threshold of 10 percent—which NW Natural does not agree  
21 to—the bill impact for residential customers in this case does not meet CUB’s proposed  
22 threshold, and thus renders CUB’s claim moot, or at least unripe on the facts of this

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<sup>461</sup> ORS 469A.445(4).

<sup>462</sup> ORS 757.396(5)

1 case.<sup>463</sup> After reflecting the revenue requirement from the Second Stipulation and the  
2 update to the PGA, the total bill impact for residential customers is now estimated to be  
3 7.0 percent.<sup>464</sup> Contrary to CUB’s unfounded allegations that the Company has a  
4 “fundamental misunderstanding of rate shock,”<sup>465</sup> the Company understands that  
5 substantial net rate increases over a short period can constitute rate shock; however, the  
6 Company’s history of relative rate stability provides important relevant context, especially  
7 given the concerns raised by CUB and Staff.<sup>466</sup>

8 To the extent CUB acknowledges that its proposal would not apply to this  
9 proceeding, but nevertheless still argues that its recommendation is not “moot” because  
10 the proposed mechanism would apply “in future years where the PGA and other  
11 automatic rate increases (not a [general rate case]) raise rates beyond the 10%  
12 threshold,”<sup>467</sup> such an argument underscores the inappropriate nature of CUB’s proposal  
13 which is unripe, divorced from the specific facts before the Commission, and presents  
14 hypothetical situations to be addressed.<sup>468</sup> Contrary to CUB’s assertions, its proposal is  
15 in no way similar to the practices of adopting a rate adjustment mechanism, such as a  
16 tracker, in a general rate case.<sup>469</sup> Rate adjustment mechanisms are in place to allow the  
17 utility to properly recover its prudently incurred costs, and the corollary for customers  
18 would be deferrals for unexpected benefits or credits accruing to the utility that should be  
19 passed on to customers. For example, the Commission made use of a deferral for

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<sup>463</sup> NW Natural’s Opening Brief at 124.

<sup>464</sup> NW Natural’s Update to Response to Bench Request at 1, line 1 (Aug. 5, 2024).

<sup>465</sup> CUB’s Closing Brief at 9-10.

<sup>466</sup> NW Natural/2200, Kravitz/34.

<sup>467</sup> CUB’s Opening Brief at 16; *see also* CUB’s Closing Brief at 8.

<sup>468</sup> *See* CUB’s Opening Brief at 15.

<sup>469</sup> *See* CUB’s Opening Brief at 11-13.

1 customer benefits in connection with the 2017 Tax Cuts and Jobs Act, and used the  
2 deferral as a tool to capture benefits to be flowed through to customers.<sup>470</sup>

3 Moreover, CUB’s argument that the issue is not moot because the **not yet**  
4 **adopted** mechanism is “working” like the deadbands in the Power Cost Adjustment  
5 Mechanism (“PCAM”), mistakes the preferred result for causality.<sup>471</sup> The rate increase is  
6 below CUB’s proposed threshold as a result of external factors, not because of a  
7 hypothetical rate impact mechanism that “incentivize[s] the utility to control its costs.”<sup>472</sup>

8 CUB also argues that the mechanism is not moot because NW Natural does not  
9 account for the full picture of its fuel costs and the Company will update the PGA in  
10 September.<sup>473</sup> Again, CUB speculates on hypothetical scenarios impacting the PGA—  
11 such as storms in the gulf or other market fluctuations increasing natural gas costs and  
12 rates—that are not present for the Commission to consider and would not, in and of  
13 themselves, justify CUB’s proposal.<sup>474</sup> Such an argument exposes the inconsistency in  
14 CUB’s proposal—on one hand, CUB advocates against the use of a deferral because it  
15 argues that the entire purpose of the rate shock mechanism is to incentivize cost  
16 management by the utility (which is already achieved through the “just and reasonable”  
17 rates standard and prudence review of investments),<sup>475</sup> while on the other hand, CUB  
18 contends that NW Natural’s rate increases should also be capped anyway due to acts of

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<sup>470</sup> See, e.g., *In re Nw. Nat. Gas Co. dba NW Natural, Application for Authorization to Defer Certain Expenses Associated with the 2018 U.S. Tax Cuts and Jobs Act*, Docket UM 1919, Order No. 19-107 (Mar. 25, 2019).

<sup>471</sup> CUB’s Closing Brief at 8.

<sup>472</sup> CUB’s Closing Brief at 8.

<sup>473</sup> CUB’s Closing Brief at 8-9.

<sup>474</sup> CUB’s Closing Brief at 9.

<sup>475</sup> CUB’s Closing Brief at 12-13.

1 god and economic pressures outside the Company’s control.<sup>476</sup> Such arguments are  
2 completely unprincipled.

3 Finally, CUB argues that its proposed mechanism is not moot because NW Natural  
4 “fails to consider the uncertainty of its exotic fuel investments on future rates,” and  
5 replacement of natural gas with RNG and hydrogen-based fuels will be expensive and  
6 increase rates.<sup>477</sup> This argument is undercut by the fact that NW Natural, as well as other  
7 investor-owned utilities, are making such investments due to statutory and regulatory  
8 requirements, decarbonization goals set by the State, and to maintain a safe and reliable  
9 service.<sup>478</sup> The utilities must comply, and in many cases, investment in new fuels,  
10 seismically resistant infrastructure, and updated pipelines to meet safety requirements is  
11 going to be costly and carry over to rates. These rate pressures are no different from  
12 those experienced by electric utilities that also have to invest in costly renewable  
13 resources, batteries, and transmission. However, utilities cannot be disallowed recovery  
14 of prudent investments that are incurred to meet statutory and regulatory requirements.

15 3. *CUB’s proposed rate shock mechanism is not tailored to NW Natural’s*  
16 *operations and has been proposed in each general rate case filed this year.*

17 CUB also suggests that the Commission does not need a separate forum to  
18 address the proposed rate shock mechanism because it is specific to NW Natural’s  
19 operations and has been discussed in multiple rounds of testimony.<sup>479</sup> However, CUB is  
20 proposing a monumental shift in policy that would affect all investor-owned utilities<sup>480</sup> and

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<sup>476</sup> CUB’s Closing Brief at 8-9.

<sup>477</sup> CUB’s Closing Brief at 9.

<sup>478</sup> See NW Natural/100, Palfreyman-Kravitz/14-15.

<sup>479</sup> CUB’s Opening Brief at 12.

<sup>480</sup> CUB acknowledges that it believes that all investor-owned utilities should institute a similar rate shock mechanism, and advocates for almost the same suite of mechanisms “in each of the general rate cases filed this year.” CUB’s Opening Brief at 14.

1 potentially have significant impacts on the utilities’ ability to finance operations and make  
2 investments.<sup>481</sup> CUB’s proposal in this docket is inappropriate—and also fails to account  
3 for the cumulative economic impact of such a proposal for all customer classes on all  
4 utilities.

5 Finally, Staff and AWEC—without *any* analysis in testimony—first supported  
6 CUB’s proposed rate shock mechanism in their briefs.<sup>482</sup> While the Company was aware  
7 of Staff’s concerns regarding energy burden, it is procedurally unfair for Staff to change  
8 its position in briefing on this very specific proposal because NW Natural did not seek to  
9 cross-examine Staff on this issue. Similarly, AWEC proposed an expansion of CUB’s  
10 proposal—that the mechanism, “should apply to all customers, not just residential  
11 customers.”<sup>483</sup> Accordingly, Staff’s and AWEC’s new positions presented for the first time  
12 in briefing should be given little if any weight.

13 In sum, the Commission should not adopt the proposed rate shock mechanism in  
14 this proceeding as it is illegal, moot (or unripe), and does not account for the cumulative  
15 impacts of similar proposals for all investor-owned utilities in the State.

#### 16 **H. Multi-Year Rate Plan**

17 Staff, CUB, and AWEC oppose the Company’s request that the Commission direct  
18 the Company to file a multi-year rate plan in its next rate case.<sup>484</sup> CUB contends that it is

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<sup>481</sup> For example, in October 2023, Standard and Poor’s Ratings (“S&P”) provided the first credit rating for NW Natural Holdings. As one of the primary reasons for explaining a negative outlook, S&P explained that the outlook reflects gradual weakening of the business risk metric, due to the ongoing energy transition risks in Oregon and Washington associated with the implementation of decarbonization mandates and potential gas bans. NW Natural/300, Wilson/11-12; see *also* NW Natural/301, Wilson/10. A rate shock mechanism as proposed would provide further regulatory uncertainty and financial risk to not only NW Natural, but all investor-owned utilities for which CUB is proposing this solution.

<sup>482</sup> Staff’s Opening Brief at 25-26; Staff’s Closing Brief at 3; AWEC’s Closing Brief at 6-7.

<sup>483</sup> AWEC’s Closing Brief at 7.

<sup>484</sup> Staff’s Closing Brief at 12; CUB’s Closing Brief at 38-39; AWEC’s Closing Brief at 3-5.

1 concerned that multi-year rate plans “will favor raising rates over improving efficiency,”<sup>485</sup>  
2 and AWEC argues that if the Company is allowed to file a multi-year rate plan, “it has an  
3 incentive to at least spend what it projected in its multi-year plan, without a corresponding  
4 incentive to save on costs through operational efficiencies.”<sup>486</sup> These arguments are  
5 unsupported by the record and are without merit. As the Company explained in its  
6 Opening Brief and in testimony, a multi-year rate plan has the potential to create  
7 predictability for customers, mitigate lumpy rate increases, eliminate strain on  
8 Commission and stakeholder resources, and reduce regulatory lag for the Company.<sup>487</sup>

9 Moreover, contrary to CUB’s and AWEC’s arguments, there is no need for a  
10 generic investigation of the Company’s proposal for a multi-year rate plan. CUB and  
11 AWEC maintain that the record in this docket is not developed enough for the Commission  
12 to make an advisory ruling directing the Company to file a multi-year rate plan,<sup>488</sup> so they  
13 suggest that the Commission open a docket to conduct a general investigation into multi-  
14 year rate plans that would permit other utilities and stakeholders to weigh in.<sup>489</sup> Staff,  
15 however, also opposes a general investigation, contending that Staff and intervenors will  
16 likely have limited resources to engage in such a docket and questioning whether it is a  
17 good use of limited Commission resources.<sup>490</sup> The Company, like Staff, does not believe  
18 that a general investigation into multi-year rate plans would be an appropriate use of  
19 Commission, stakeholder, or utility resources. The Company raised the concept of multi-

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<sup>485</sup> CUB’s Closing Brief at 39.

<sup>486</sup> AWEC’s Closing Brief at 4.

<sup>487</sup> NW Natural Opening Brief at 137-39; NW Natural/2200, Kravitz/41.

<sup>488</sup> CUB’s Closing Brief at 39; AWEC’s Closing Brief at 3.

<sup>489</sup> CUB’s Closing Brief at 38-39; AWEC’s Closing Brief at 4-5.

<sup>490</sup> Staff’s Closing Brief at 12.

1 year rate plans in its Direct Testimony to begin to develop a record and seek stakeholder  
2 engagement on the issue, and to clearly telegraph its intention to file a multi-year plan in  
3 its next rate case.<sup>491</sup> The Company sought to explore the issue with parties and the  
4 Commission throughout this proceeding.<sup>492</sup> Staff indicates that it “understood NW  
5 Natural’s opening and reply testimony to be an invitation to parties to engage in dialogue  
6 regarding the concept,”<sup>493</sup> but Staff did not take the Company at its invitation and engage  
7 in its testimony.<sup>494</sup>

8 Similarly, though AWEC now argues that the record is not sufficiently developed  
9 regarding multi-year rate plans, AWEC failed to avail itself of its opportunity in testimony  
10 to provide feedback to the Company on this issue either. In fact, AWEC did not address  
11 this issue until its Closing Brief. On the other hand, CUB did engage with the concept of  
12 multi-year rate plans in both its Opening and Rebuttal Testimony, leading the Company  
13 to continue to evolve its thinking based on CUB’s critiques.<sup>495</sup> The fact that certain parties  
14 did not engage on this proposal or engaged too late to develop the record does not mean  
15 there is no record. The Company and CUB developed this issue in testimony, and plainly,  
16 there is a record upon which the Commission can provide guidance. To the extent that  
17 the parties to this proceeding had the opportunity to develop the record on this issue but  
18 now claim that their own lack of engagement should be reason to decline the Company’s  
19 request for guidance, the Commission should reject this argument.

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<sup>491</sup> NW Natural/100, Palfreyman-Kravitz/32-36.

<sup>492</sup> NW Natural/100, Palfreyman-Kravitz/36.

<sup>493</sup> Staff’s Closing Brief at 12.

<sup>494</sup> Staff did, however, engage with the Company in discovery regarding the concept of multi-year rate plans. See NW Natural/2200, Kravitz/41-42.

<sup>495</sup> NW Natural/2200, Kravitz/46, NW Natural/4400, Kravitz/32-34.

1 Staff also argues that the Company should seek to engage with stakeholders on  
2 multi-year rate plans “in a more collaborative and workable way” and argues that the  
3 Company should hold workshops with stakeholders “specifically on this topic.”<sup>496</sup>  
4 However, Staff fails to acknowledge that the Company in fact did hold a workshop in this  
5 very proceeding to create space for collaborative discussion of the concept of multi-year  
6 rate plans to be discussed.<sup>497</sup> That said, the Company is receptive to Staff’s feedback  
7 and intends to hold another workshop on multi-year rate plans before it undertakes to file  
8 such a plan, and looks forward to additional feedback from stakeholders at that time.

9 Because NW Natural and CUB engaged on this topic, the Company would  
10 appreciate the Commission’s engagement on this issue.

### 11 III. CONCLUSION

12 The Company respectfully requests that the Commission approve the First,  
13 Second, and Third Stipulations without modification because they represent a reasonable  
14 resolution to the settled issues in this case. Concerning the litigated issues, the Company  
15 respectfully requests that the Commission: (1) adopt the Company’s rate design proposal,  
16 including a monthly fixed rate charge of \$24.50 for new, single-family premises and  
17 \$22.50 for new, multi-family premises, and the Company’s proposed decoupling  
18 mechanism that bifurcates customers residing in premises connected to the system on or  
19 after November 1, 2024; (2) adopt the Company’s proposed LEA model as it incorporates  
20 the direction from the Commission for an LEA that reflects the costs of GHG emissions  
21 reduction compliance for new and existing premises customers and demonstrates a

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<sup>496</sup> Staff’s Closing Brief at 12-13.

<sup>497</sup> For example, the Company held a workshop on March 5, 2024 where Staff submitted questions to the Company on Multi-Year Rate Plans to be discussed.

1 pathway for responsible growth of the gas system while providing benefits to existing  
2 premises customers, and reject Staff's, CUB's, and the Coalition's proposals to eliminate  
3 or phase out the LEA; (3) find that NW Natural's administration of Schedule X is prudent,  
4 reasonable, and consistent with the tariff and decline to retroactively disallow LEA rate  
5 base; (4) adopt the Company's proposed changes to the Schedule 198 earnings test to  
6 add a deferral and removed the deadbands from the earnings test and instead set the  
7 earnings test at authorized ROE; (5) decline to adopt the Coalition's proposed change the  
8 OLIEE program to use natural gas customer funds to electrify NW Natural's customers to  
9 the detriment of its remaining customer base; (6) reject the Coalition's proposal to disallow  
10 NW Natural's Government Affairs expense for the Test Year and to require the  
11 Government Affairs team to track and report time for its core utility activities; (7) reject  
12 CUB's rate shock proposal; and (8) provide guidance to inform any future Company  
13 proposal for a multi-year rate plan in its order in this docket.

Respectfully submitted this 3rd day of September, 2024.



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