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July 26, 2022

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Filing Center
P.O. Box 1088
201 High Street SE, Suite 100
Salem, Oregon 97308-1088

Re: Consolidated UG 435 / UG 411 / Application of NW Natural for a General Rate Revision / Schedule 198 Renewable Natural Gas Recovery.

Attention Filing Center:

Attached for filing in the above-referenced docket is the Stipulating Parties' Reply Testimony to the Small Business Utility Advocates' Objections to the Second Stipulation.

Please contact this office with any questions.

Sincerely,

Alisha Till

Alisha Till
Paralegal

Attachment

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKETS NO. UG 435 and UG 411 (Consolidated)

Joint Reply Testimony to the Small Business Utility Advocates' Objections to the Second Stipulation

Joint Parties: NW Natural Gas Company d/b/a NW Natural, Staff of the Public Utility Commission of Oregon, the Oregon Citizens' Utility Board, the Alliance of Western Energy Consumers, and the Coalition of Communities of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon Environmental Council, Community Energy Project, and Sierra Club

NW NATURAL-STAFF-CUB-AWEC-COALITION EXHIBIT 200

Joint Testimony of Zachary D. Kravitz, Robert J. Wyman, Brian Fjeldheim, Michelle Scala, Bob Jenks, Bradley Mullins, and Charity Fain

July 26, 2022

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I. INTRODUCTION AND SUMMARY

Q. Who is sponsoring this testimony?

A. This testimony is sponsored jointly by Northwest Natural Gas Company d/b/a NW Natural ("NW Natural" or "Company"), Staff of the Public Utility Commission of Oregon ("Staff"), the Oregon Citizens' Utility Board ("CUB"), the Alliance of Western Energy Consumers ("AWEC"), and the Coalition of Communities of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon Environmental Council, Community Energy Project, and Sierra Club (the "Coalition") (collectively, the "Stipulating Parties").

Q. Are you the same Stipulating Parties that provided Joint Testimony in Support of the Second Partial Stipulation ("Second Stipulation")?

A. Yes. We filed NW Natural-Staff-CUB-AWEC-Coalition Exhibit 100 in support of the Second Stipulation.[1]

Q. What is the purpose of this Joint Reply Testimony?

A. The Small Business Utility Advocates ("SBUA") did not join the Second Stipulation, and filed Rebuttal and Cross-Answering Testimony on June 30, 2022, and Objection Testimony on July 18, 2022, recommending in both filings that the Commission reject the portion of the Second Stipulation addressing the COVID-19 deferral. This Joint Reply Testimony responds to SBUA's objections to the Second Stipulation and further supports the reasonableness of the Second Stipulation.

[1] On June 29, 2022, NW Natural, Staff, CUB, AWEC, and the Coalition filed a Multi-Party Second Partial Stipulation regarding decoupling, residential customer deposits, the Oregon Low Income Energy Efficiency Program ("OLIEE"), and the Company's COVID-19 deferral costs ("Second Stipulation").

II. BACKGROUND

Q. Please describe the parties opening positions regarding the COVID-19 deferral.

A. NW Natural did not request to amortize its COVID-19 deferral in its Initial Filing, proposing instead to continue to defer the costs for later recovery.[2] In its Opening Testimony, Staff recommended that the Company begin amortizing the total amount in the COVID-19 deferral through 2021, plus interest, over a two-year period as a temporary increment in its Purchased Gas Adjustment ("PGA"), effective November 1, 2022.[3] Staff proposed some adjustments to the Company's deferred costs and timing of deferred costs, which changes resulted in a proposed downward adjustment of approximately $300 thousand to the Company's deferral balance as of December 31, 2021.[4] Additionally, Staff proposed grouping the COVID-19 deferral costs into three groups and recommended a different rate spread approach for each group based on an analysis of cost causation and, for one category, the flow of direct and indirect economic benefits to each customer class.[5] Staff also proposed an earnings test set at 50 basis points below the Company's authorized return on equity ("ROE") for the Company's COVID-19 direct costs, or "Item A" costs as shown in Table 15-2 of Staff's testimony.[6] Staff proposed full recovery of the "Items B through F" of Table 15-2, which included Late Payment Fees Not Assessed, Bad Debt Expense Above Baseline,

[2] NW Natural/100, Anderson-Kravitz/7.
[3] Staff/1500, Dlouhy-Fox-Storm/2.
[4] Staff/1500, Dlouhy-Fox-Storm/13-15.
[5] Staff/1500, Dlouhy-Fox-Storm/43-44.
[6] Staff/1500, Dlouhy-Fox-Storm/15, 17.

Reconnections and Field Visits April 1, 2021 to October 1, 2022, Foregone Reconnection Charges through November 15, 2020, and COVID-19 Bill Payment Assistance Program.[7] CUB, in its Opening Testimony, agreed that expenses related to COVID-19 are appropriate for deferred accounting and proposed that the Company's COVID-19 costs be recovered from all customers on an equal cent per therm basis.[8]

In Reply Testimony, the Company did not oppose Staff's proposal to amortize the COVID-19 deferral over a two-year period beginning November 1, 2022,[9] and agreed with Staff's proposed reclassification of certain savings from 2021 to 2020 for the purposes of amortization.[10] However, the Company disagreed with Staff's proposed downward adjustments to the Company's deferral balance,[11] arguing instead that the Company's calculations were consistent with Order No. 20-401 in Docket UM 2114, in which the Commission authorized the Company and other signatory utilities to defer costs associated with the COVID-19 pandemic for later ratemaking treatment per the conditions in the stipulation agreement that was adopted in that docket.[12] Additionally, NW Natural stated that Staff's proposed earnings test set at 50 points below the Company's authorized ROE would not provide a reasonable rate of return, whereas the Company's authorized ROE does, and should therefore be used to determine whether the

[7] Staff/1500, Dlouhy-Fox-Storm/15, 17.
[8] CUB/200, Gehrke/37.
[9] NW Natural/2000, Faulk/3.
[10] NW Natural/2000, Faulk/11.
[11] NW Natural/2000, Faulk/5, 10.
[12] NW Natural/2000, Faulk/5, 10.

direct costs of COVID-19 should be amortized.[13] Finally, the Company expressed its support for spreading a portion of the deferral amortization across every rate class based on principles of cost causation but did not propose a specific rate allocation.[14]

Q. How did the Stipulating Parties resolve their differences regarding the COVID-19 deferral in the Second Stipulation?

A. As a result of their settlement discussions, the Stipulating Parties agree that NW Natural will amortize its 2020 and 2021 COVID-19 deferral balances, inclusive of interest accrued on those balances but subject to a negative adjustment of $163 thousand, over two years as a temporary increment in its PGA, effective November 1, 2022.[15] The Stipulating Parties further agree that certain portions of NW Natural's COVID-19 deferral—specifically the direct costs, as recommended by Staff—will be subject to an earnings test set at the Company's authorized ROE and that NW Natural will apply a rate spread allocation methodology to the deferred balances that is consistent with Appendix B to the First Stipulation.[16] Finally, NW Natural may request a prudency review and amortization of post-2021 COVID-19 deferral balances in a future proceeding.[17] The Stipulating Parties memorialized this agreement in Paragraph 4 of the Second Stipulation.

Q. Did SBUA participate in the settlement discussions?

A. Yes. SBUA participated in all settlement negotiations leading up to the Second

[13] NW Natural/2300, Walker-Wyman/14.
[14] NW Natural/2300, Walker-Wyman/21.
[15] Second Stipulation at 7.
[16] Second Stipulation at 7.
[17] Second Stipulation at 7.

Stipulation, but SBUA did not ultimately join the Second Stipulation.

Q. Does SBUA object to the entirety of the Second Stipulation?

A. No, SBUA objects only to Paragraph 4 of the Second Stipulation regarding the COVID-19 deferral.[18] SBUA's objections to the Second Stipulation are described in its Rebuttal and Cross-Answering Testimony filed on June 30, 2022, and its Objection Testimony filed on July 18, 2022.

Q. Please summarize the Stipulating Parties' testimony supporting Paragraph 4 of the Stipulation.

A. The Stipulating Parties agree that amortizing the Company's 2020 and 2021 deferral balances over a two-year period using the rate spread allocation methodology from the First Stipulation after a negative adjustment of $163 thousand and an earnings test set at the Company's authorized ROE constitutes a reasonable result in the context of the overall stipulation. The Stipulating Parties believe the COVID-19 deferral rate spread allocation methodology reasonably reflects cost causation of all cost elements of the deferral as a whole; this allocation is also reflective of the same compromises and adjustments that Stipulating Parties to the First Stipulation made (as captured in Appendix B to the First Stipulation) to reach a rate design and rate spread allocation for all revenue requirement issues that provides just and reasonable rates for all rate schedules. The Stipulating Parties further agree that using the rate spread allocation previously agreed to in Appendix B to the First Stipulation is a reasonable compromise of the COVID-19 deferral balance issue.

[18] SBUA/300, Kermode/2.

III. RESPONSE TO SBUA'S OBJECTIONS TO THE SECOND STIPULATION

Q. Please summarize SBUA's objections to the COVID-19 Deferral issue in the Second Stipulation, as you understand them.

A. SBUA raises the following objections to the COVID-19 Deferral portion of the Second Stipulation: (1) SBUA claims it did not have adequate notice of the COVID-19 deferral issue and opportunity to audit the costs associated with the deferral because amortization of the deferral was not proposed in NW Natural's Initial Filing, and instead was proposed by Staff in its Opening Testimony;[19] (2) SBUA argues the costs included in the COVID-19 deferral inappropriately groups dissimilar costs together for the use of a single allocator;[20] and (3) SBUA asserts that the stipulated cost allocation methodology is based erroneously on a forward-looking allocation factor rather than a historical one, which SBUA argues violates the matching principle.[21] SBUA provides an alternative cost allocation proposal in which it excludes the small business customer class from the COVID-19 Bill Assistance Program cost category[22] and allocates costs for each of the remaining cost categories separately and based on historical marginal revenue rather than Test Year revenue.[23] The Stipulating Parties will address these issues in turn.

[19] SBUA/200, Kermode/2-3.
[20] SBUA/300, Kermode/3.
[21] SBUA/300, Kermode/3.
[22] SBUA refers to this category as the "Rate Payer Bill Assistance Program." See, SBUA/200, Kermode/18.
[23] SBUA/200, Kermode/17-18; SBUA/300, Kermode/4-5.

a) <u>Response to SBUA's Argument that it Did Not Receive Adequate Notice of COVID-19 Deferral Being Addressed in the Rate Case</u>

Q. SBUA argues that it did not receive adequate notice of the possible amortization of the COVID-19 deferral because it was not proposed in the Company's Initial Filing.[24] How do the Stipulating Parties respond?

A. SBUA is correct that NW Natural did not propose amortizing the COVID-19 deferral as part of its Initial Filing, however, that should not foreclose the Commission from approving this aspect of the Second Stipulation. In certain circumstances, it is appropriate to consider the amortization of outstanding deferrals in the context of a rate case, and the fact that it was Staff rather than the Company that proposed amortization does not present any barrier to the parties considering that proposal. Indeed, the first opportunity for Staff and intervenors to make any such proposal is in Opening Testimony, and then those proposals are further analyzed and refined by the parties over the course of the proceeding.

Q. SBUA claims that due to lack of notice, it has not had adequate time to audit the amounts included in the COVID-19 deferral.[25] How long has SBUA had to audit the proposal?

A. Staff proposed amortizing the COVID-19 deferral as part of its Opening Testimony, which was filed on April 22, 2022.[26] From the time that Staff made its proposal to the filing deadline for SBUA's Objection to the Second Stipulation, SBUA had 87 days (or nearly three full months) to audit the costs in the COVID-19 deferral.

[24] SBUA/200, Kermode/2-3.
[25] SBUA/200, Kermode/2-3.
[26] Staff/1500, Dlouhy-Fox-Storm/16.

Q. During that time, did SBUA conduct discovery regarding the COVID-19 deferral?

A. Yes. SBUA issued three Data Requests to Staff on this topic (on June 9, 2022), and two Data Requests to NW Natural on this topic (also on June 9, 2022).

Q. Did SBUA explicitly challenge the prudence of the costs associated with the COVID-19 deferral?

A. No. SBUA only suggests that it did not have time to audit the costs, even though it had nearly three months to perform its audit and also took advantage of the opportunity to conduct discovery on this issue.

Q. Did Staff perform a prudence review of the costs associated with the COVID-19 deferral?

A. Yes. Staff concluded that it had adequate information to perform a prudence review at the time it filed its Opening Testimony on April 22, 2022, and described its review process in its testimony.[27] Staff presented Table 15-2 of "Prudent Costs in UM 2068," which included several adjustments regarding bad debt expense, late payment fees not assessed, and adjusting the timing of certain entries, and concluded that no costs included in that table were imprudent.[28]

Q. How did NW Natural respond to Staff's adjustments?

A. As described in the Reply Testimony of Amanda Faulk, NW Natural agreed with Staff's adjustment related to the timing of certain entries, but did not agree with Staff's adjustments regarding late payment fees and bad debt expense.[29]

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[27] Staff/1500, Dlouhy-Fox-Storm/9-15.
[28] Staff/1500, Dlouhy-Fox-Storm/15.
[29] NW Natural/2000, Faulk/5-11; NW Natural/2001, Faulk/1.

Q. How did the Stipulating Parties resolve the question of the prudence of the deferred costs?

A. The Stipulating Parties agreed to a negative adjustment of $163 thousand, which represented a compromise of the Stipulating Parties' positions.[30]

b) Response to SBUA's Argument Regarding Grouping of Costs and Allocation to Small Business Customers

Q. What is the basis of SBUA's objection to using the agreed rate spread for NW Natural's revenue requirement for the deferred COVID-19 costs?

A. SBUA believes it is inappropriate to treat all deferred COVID-19-related costs the same for purposes of cost allocation. SBUA argues the Commission authorized deferral of six different cost types and objects to grouping NW Natural's deferred COVID-19 costs into a lump sum for purposes of amortization with no recognition or any discussion of underlying reasons for the costs.[31] SBUA notes that NW Natural deferred costs for only four of the six different categories and that one of the categories, residential customer rate assistance, provides no benefit to small businesses and therefore these costs should not be allocated to SBUA.[32] For the remaining categories, direct costs and benefits, bad debt expense, and foregone late and reconnection fees, SBUA argues the costs should be broken down by rate class and allocated accordingly.[33]

Q. What are the categories of costs that SBUA is referencing?

[30] NW Natural-Staff-CUB-AWEC-Coalition/100, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/16.
[31] SBUA/300, Kermode/3.
[32] SBUA/200, Kermode/17-18.
[33] SBUA/300, Kermode/3.

A. The cost categories are illustrated in Staff's Direct Testimony in Table 15-2,[34] which is included below for ease of reference.

Table 15-2: Prudent Costs in UM 2068

Term Sheet Category	COVID Itemization:	2020 Total	2021 Total*	Aggregated Total*
Item a	**Direct Costs**	$ 2,517,468.93	$ 763,710.50	$ 3,281,179.43
Item a	**Direct Savings and Benefits**	$ (395,794.11)	$ (418,233.38)	$ (814,027.49)
	Travel, meals and entertainment related	$ (236,843.18)	$ (362,052.85)	$ (598,896.03)
	Employee expenses: education and refreshments	$ (157,955.00)	$ (43,273.65)	$ (201,228.65)
	Interest	$ (995.93)	$ (12,906.88)	$ (13,902.81)
Item b	**Late Payment Fees Not Assessed**	$ 1,112,539.00	$ 1,173,020.00	$ 2,285,559.00
Item c	**Bad Debt Expense Above Baseline**	$ 2,074,679.00	$ (187,682.00)	$ 1,886,997.00
	Residential	$ 1,188,554.27	$ 212,534.76	$ 1,401,089.03
	Commercial	$ 853,113.58	$ (299,948.26)	$ 553,165.32
	Industrial	$ 29,303.25	$ (100,268.41)	$ (70,965.16)
	Interest	$ 22,789.40	$ 53,598.26	$ 76,387.66
Item d	**Reconnections and Field Visits Apr. 1, 2021-Oct. 1, 2022**	$ -	$ -	$ -
Item e	**Foregone Reconnection Charges through Nov. 15, 2020**	$ -	$ -	$ -
Item f	**COVID-19 Bill Payment Assistance Program**	$ -	$ 3,730,917.93	$ 3,730,917.93
	Total**	**$ 5,308,892.81**	**$ 5,061,733.05**	**$ 10,370,625.87**

Q. What is the Stipulating Parties' response to SBUA's argument that it is inappropriate to group the different categories of COVID-19 costs into one amount for purposes of cost allocation?

A. The Stipulating Parties believe that SBUA overlooks the fact small businesses benefitted from all the rate relief measures offered to residential customers. Specifically, the relief offered to residential customers allowed them to spend more than they otherwise would on other categories in their budget, such as food, shelter, and transportation. As Staff explained in its Direct Testimony, benefits received by residential customers lead to a fiscal multiplier effect on the total output of Oregon's economy, with benefits received well beyond the actual recipients of the credits.[35] After taking into account the fact that small business customers benefitted from all of the rate relief measures underlying the deferred

[34] Staff/1500, Dlouhy-Fox-Storm/15.
[35] *See* Staff/1500, Dlouhy-Fox-Storm/25.

costs, SBUA's argument that it is unreasonable to group the costs together for purposes of cost allocation is not well founded.

Q. What is SBUA's response to the argument that small businesses benefited from the rate relief and other measures offered to residential customers and therefore, should be allocated the costs?

A. SBUA testifies that the "difficulty with assuming the flow of indirect benefits to the commercial and industrial classes is that it becomes very subjective, and as we see, those trying to identify who received the assumed indirect benefits can easily find themselves going down a rabbit hole."[36]

Q. Is SBUA's concern regarding the subjectivity of identifying the benefits that flowed to small businesses a reason to reject the Second Stipulation among all other parties to the proceeding regarding the appropriate allocation of these costs?

A. No, it is not. In reaching the agreements contained in the Second Stipulation, the Stipulating Parties agreed to put aside different opinions on precisely what benefits different customer groups received from the various COVID-19 relief measures and agreed to apply the cost allocation from Appendix B to the First Stipulation that will be applied to NW Natural's incremental revenue requirement in this proceeding. The Stipulating Parties agreed that this allocation approach is appropriate to match costs and benefits of the COVID-19 relief measures. SBUA's argument that the Second Stipulation should be rejected to allow SBUA's preferred

[36] SBUA/200, Kermode/10.

allocation of costs is not sufficient reason to reject the portion of the Second Stipulation addressing the COVID-19 deferral.

c) Response to SBUA's Argument that the Stipulated Cost Allocation Methodology Violates the Matching Principle

Q. SBUA argues that using a forward-looking allocator to recover deferred historical costs violates the matching principle resulting in costs that were incurred by one customer class, now being paid by different customer class.[37] How do the Stipulating Parties respond?

A. SBUA misunderstands the methodology the Stipulating Parties have proposed to spread the COVID-19 deferral. The Stipulating Parties agreed to apply a rate spread allocation consistent with Appendix B to the First Stipulation. It is understood by Stipulating Parties that the COVID-19 deferral allocation follows in the same manner as the $62.7 million *incremental* revenue requirement rate spread agreed to in the First Stipulation of this proceeding; the deferral cost allocation is neither based on nor is it calculated using proposed Test Year margin revenue as SBUA contends. Rather, the COVID-19 deferral rate spread is calculated and allocated to each rate schedule on a proportional basis. The deferral amount allocated to each rate schedule, as a relative percentage, is equal to the same percent of incremental margin revenue that was allocated to it by the First Stipulation. For instance, the Company's Basic Firm Sales Service – Non-Residential (Commercial) Rate Schedule 03C ("Schedule 03C") was allocated 24.1 percent of the incremental revenue requirement in the First Stipulation. Under

[37] SBUA/300, Kermode/3.

the Stipulating Parties' agreement to the Second Stipulation, Schedule 03C is similarly allocated 24.1 percent of the COVID-19 deferral. The relative share of the Schedule 03C allocation is therefore not impacted by the absolute value of proposed margin revenues.

Because the rate spread agreement is based on the incremental revenue requirement agreed upon in the First Stipulation, and is not based on proposed margin revenues as SBUA claims, we disagree with SBUA's argument that the COVID-19 deferral allocation violates the matching principle as we explain further below.

Q. SBUA contends that the Stipulating Parties "argue that the use of the proposed marginal revenue better reflects cost causation and the results of the Long-Run Incremental Cost Study, but on this they are incorrect."[38] How do the Stipulating Parties respond?

A. SBUA misinterprets the results of the Company's Long-Run Incremental Cost Study ("LRIC study"). In Opening Testimony, NW Natural/1400, Wyman, the Company presented its LRIC study-indicated parity ratios at *present rates* by rate schedule and rate class.[39] These parity ratios indicate each rate schedule's level of overall cost causation relative to unit parity (e.g., the point where it is neither overpaying nor underpaying its cost of service at present margin rates) prior to the allocation of any proposed marginal revenue in this proceeding. The Company's LRIC study indicated that the Schedule 02 Residential, Schedule 03 Commercial,

[38] SBUA/200, Kermode/19-20.
[39] NW Natural/1400, Wyman/43, at Table 1.

and Schedule 27 Dry-Out rate schedules are paying less than their full cost of service at *present* rates while the remaining (large volume industrial and commercial) rate schedules are paying more than their cost to serve at *present* rates.[40]

The Stipulating Parties, therefore, interpret the results of the LRIC study as indicative of the relative cost causality among the Company's rate classes during the period that the COVID-19 costs were incurred and deferred (2020 and 2021). Each Stipulating Party, however, weighed the results of the LRIC study differently and (as noted above) the agreed-upon rate spread allocation is based on the Stipulating Parties' reasonable compromise.

Q. SBUA contends that the "use of the proposed marginal revenues causes a mismatch of costs and periods violating the matching principle and producing a flawed cost recovery."[41] How do the Stipulating Parties respond?

A. We disagree with SBUA's argument that the proposed cost recovery is flawed. It is appropriate ratemaking to weigh the allocation and recovery of historic costs against the LRIC study-indicated parity ratios at *present* rates. In fact, the parties to the First Stipulation considered these same parity ratios among many other factors to reach a rate spread settlement position regarding incremental revenue requirement, which includes recovery associated with historic Base Year capital investments and expenses, and which is memorialized in to this proceeding.

[40] NW Natural/1400, Wyman/42.
[41] SBUA/200, Kermode/20.

SBUA, which was a party to that First Stipulation, did not similarly object to the use of the Company's LRIC study-indicated parity ratios at *present* rates to inform the incremental revenue requirement rate spread allocation, nor did SBUA argue at the time that the parties' agreement was "flawed."

Q. SBUA states that "it is essential that the historical marginal revenue be used to allocate these costs, the failure to do so results in rates that will be neither just, fair, and certainly, not reasonable."[42] How do the Stipulating Parties respond?

A. As we explained above, the Stipulating Parties' rate spread proposal is based on each rate schedule's relative cost causation at *present* rates. To illustrate this fact further, Table 1 below shows margin revenue at present rates, the parity ratio at present rates, and the proposed First Stipulation and Second Stipulation rate spread allocations. Stipulating Parties have proposed a share greater than overall share of margin revenue at present rates for Schedule 03C (as well as Schedule 02R) because its parity ratio indicates it is underpaying its cost to serve at *present* rates.

[42] SBUA/200, Kermode/21.

Table 1: Margin Revenues at Present Rates with First and Second Stipulation Rate Spread Allocations, by Rate Schedule.

Rate Schedule	Rate Schedule Description	Margin Revenue at Present Rates	Share of Marginal Revenue at Present Rates	Parity Ratio at Present Rates (Unit Parity = 1.0) (1)	First Stipulation Rate Spread Allocation		Second Stipulation Rate Spread Allocation	
		$ Margin	% Share		$ Margin	% Share	$ Margin	% Share
		A	B	C	D	E	F	G
02R	Residential	$ 302,743,546	68.05%	0.95	$ 43,656,167	69.68%	$ 3,662,134	69.68%
03CSF	Small Business / Commercial	$ 92,803,627	20.86%	0.95	$ 15,115,023	24.12%	$ 1,267,936	24.12%
03ISF	Industrial	$ 2,141,772	0.48%	1.19	$ 241,311	0.39%	$ 20,243	0.39%
27R	Dry-Out	$ 471,508	0.11%	0.85	$ 78,238	0.12%	$ 6,563	0.12%
31CSF	Large Volume Commercial	$ 8,261,800	1.86%	1.46	$ 930,847	1.49%	$ 78,085	1.49%
31CTF	Large Volume Commercial	$ 981,292	0.22%	1.63	$ 110,561	0.18%	$ 9,275	0.18%
31ISF	Industrial	$ 3,237,130	0.73%	1.53	$ 364,724	0.58%	$ 30,595	0.58%
31ITF	Industrial	$ 143,836	0.03%	2.20	$ 16,206	0.03%	$ 1,359	0.03%
32CSF	Large Volume Commercial	$ 11,882,484	2.67%	1.57	$ 1,338,785	2.14%	$ 112,305	2.14%
32ISF	Industrial	$ 2,462,192	0.55%	2.20	$ 67,843	0.11%	$ 5,691	0.11%
32CTF	Large Volume Commercial	$ 1,024,698	0.23%	2.46	$ 28,235	0.05%	$ 2,368	0.05%
32ITF	Industrial	$ 6,584,741	1.48%	2.11	$ 181,436	0.29%	$ 15,220	0.29%
32CSI	Large Volume Commercial	$ 2,232,839	0.50%	1.16	$ 251,571	0.40%	$ 21,103	0.40%
32ISI	Industrial	$ 3,307,718	0.74%	2.16	$ 91,141	0.15%	$ 7,645	0.15%
32CTI	Large Volume Commercial	$ 525,889	0.12%	2.49	$ 14,490	0.02%	$ 1,216	0.02%
32ITI	Industrial	$ 6,064,679	1.36%	1.89	$ 167,106	0.27%	$ 14,018	0.27%
33T	Industrial	$ 0	0.00%	1.00	$ 0	0.00%	$ 0	0.00%
Totals		**$ 444,869,752**	**100.00%**		**$ 62,653,684**	**100.00%**	**$ 5,255,756**	**100.00%**

Note (1): A parity ratio below the value of 1.00 indicates that customers on a given schedule are underpaying their LRIC study determined cost of service at present margin rates. A value over 1.00 indicates that customers on a given rate schedule are paying more than their cost of service at present margin rates.

d) <u>Response to SBUA's Alternative Proposal</u>

Q. Please describe SBUA's alternative proposal for allocating the COVID-19 deferral.

A. SBUA allocated the four categories (COVID-19 direct costs and benefits, late fees, bad debt expense, and the COVID-19 Bill Assistance Program) of costs using allocation approaches that SBUA claims fit the cost profiles for each category. SBUA allocated the direct costs and benefits and late fees using an equal percent of marginal allocator using margin revenues at present rates. SBUA allocated bad debt expense using a two-part process: (1) Costs were allocated to each rate class based on the Company's deferred tracking of costs by rate class; and then (2) allocating the costs intra-class using margin revenues at present rates. Finally, SBUA allocated all costs associated with the COVID-19 Bill Assistance Program to the residential rate class. Table 2 below shows the SBUA's rate spread proposal compared to the Second Stipulation.

Table 2: Second Stipulation Rate Spread Allocation Compared to SBUA's Rate Spread Proposal, by Rate Schedule.

Rate Schedule	Rate Schedule Description	Parity Ratio at Present Rates (Unit Parity = 1.0)	Second Stipulation Rate Spread Allocation		SBUA Proposal Rate Spread Allocation (1)		Allocation Difference
			$ Margin	% Share	$ Margin	% Share	% Share
		A	B	C	D	E	F= E-C
02R	Residential	0.95	$ 3,662,134	69.68%	$ 4,233,654	80.55%	10.87%
03CSF	Small Business / Commercial	0.95	$ 1,267,936	24.12%	$ 729,742	13.88%	-10.24%
03ISF	Industrial	1.19	$ 20,243	0.39%	$ 8,302	0.16%	-0.23%
27R	Dry-Out	0.85	$ 6,563	0.12%	$ 3,688	0.07%	-0.05%
31CSF	Large Volume Commercial	1.46	$ 78,085	1.49%	$ 64,965	1.24%	-0.25%
31CTF	Large Volume Commercial	1.63	$ 9,275	0.18%	$ 7,716	0.15%	-0.03%
31ISF	Industrial	1.53	$ 30,595	0.58%	$ 12,548	0.24%	-0.34%
31ITF	Industrial	2.20	$ 1,359	0.03%	$ 558	0.01%	-0.02%
32CSF	Large Volume Commercial	1.57	$ 112,305	2.14%	$ 93,435	1.78%	-0.36%
32ISF	Industrial	2.20	$ 5,691	0.11%	$ 9,544	0.18%	0.07%
32CTF	Large Volume Commercial	2.46	$ 2,368	0.05%	$ 8,057	0.15%	0.11%
32ITF	Industrial	2.11	$ 15,220	0.29%	$ 25,524	0.49%	0.20%
32CSI	Large Volume Commercial	1.16	$ 21,103	0.40%	$ 17,557	0.33%	-0.07%
32ISI	Industrial	2.16	$ 7,645	0.15%	$ 12,821	0.24%	0.10%
32CTI	Large Volume Commercial	2.49	$ 1,216	0.02%	$ 4,135	0.08%	0.06%
32ITI	Industrial	1.89	$ 14,018	0.27%	$ 23,508	0.45%	0.18%
33T	Industrial	1.00	$ 0	0.00%	$ 0	0.00%	0.00%
Totals			**$ 5,255,756**	**100.00%**	**$ 5,255,756**	**100.00%**	**0.00%**

Note (1): SBUA rate spread proposal source: Exhibit SBUA/203, Kermode/1.

Q. How do the Stipulating Parties respond to SBUA's alternative proposal?

A. The Stipulating Parties disagree that all of the COVID-19 Bill Assistance Program should be allocated to the residential rate class. As Staff explained in its Direct Testimony, benefits received by residential customers lead to a fiscal multiplier effect on the total output of Oregon's economy, with benefits received well beyond the actual recipients of the credits.[43] As shown in Table 2 above, SBUA's proposal would result in the share of COVID-19 deferral allocated to residential Schedule 02R increasing by roughly 10.9 percent while the share to the small commercial Schedule 03C would decrease by 10.2 percent. The share of the deferral allocation for the large volume rate schedules would increase for some and decrease for others. The Stipulating Parties agree that the approach in the Second Stipulation is reasonable because it is based on a compromise that considers, among other factors, the LRIC-indicated cost causation at present rates. SBUA's proposal would result in an undue shift of costs from Schedule 03C to Schedule 02R even though both schedules have the same relative cost causation at present rates. Additionally, as Staff has set forth in its Opening Testimony, Schedule 3C customers realized direct and indirect benefits from all the deferred cost categories. While all Stipulating Parties did not fully agree on Staff's methodology, the Stipulating Parties agree that, in the context of an unprecedented global pandemic, allocating the deferral consistent with Appendix B to the First Stipulation was a reasonable approach. .

Q. Does SBUA's alternative proposal warrant the rejection of the portion of the Second Stipulation addressing the COVID-19 deferral?

A. No. While SBUA identifies a potential method of allocating the COVID-19 deferral costs, SBUA has not established that the method agreed to by the Stipulating Parties results in unjust and unreasonable rates.

Q. What is your recommendation to the Commission?

[43] See Staff/1500, Dlouhy-Fox-Storm/25.

A. We recommend that the Commission reject SBUA's alternative proposal and affirm the Second Stipulation in its entirety.

Q. Does this conclude your Joint Reply Testimony?

A. Yes.