

BEFORE THE OREGON PUBLIC UTILITIES COMMISSION

In the matter of

**NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL**

**DOCKETS UG 435
UG 411**

Request for a General Rate Revision

OBJECTION TESTIMONY OF

Danny P. Kermode, CPA-Retired

SBUA/300

July 18th, 2022

SBUA/300
Kernode/ii

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I. INTRODUCTION AND SCOPE OF TESTIMONY

Q. Please state your name, business address.

A. My name is Danny Kermode, and my business address is 5326 75th CT SW, Olympia, Washington 98512. My business email address is 5553dkcpa@GMX.US.

Q. Are you the same Danny Kermode who submitted opening testimony, and rebuttal and cross-answering testimony, on behalf of the Small Business Utility Advocates (SBUA) on April 22, 2022, and June 30, 2022, respectively, in this docket?

A. Yes.

Q. What is the purpose of your objection testimony?

A. I am objecting to the Multi-Party Second Partial Stipulation Regarding Decoupling, Residential Customer Deposits, the Oregon Low 2 Income Energy Efficiency Program (“OLIEE”), and COVID-19 Deferral Costs filed on June 29, 2022 (“Second Partial Stipulation”) and responding to the Joint Testimony in Support of the Second Partial Stipulation filed by the Stipulating Parties on July 7, 2022 (“Joint Testimony”).¹ Specifically I address the Stipulating Parties’ treatment of COVID-19 costs.

Q. Did you already address the Second Partial Stipulation’s treatment of COVID-19 costs in your Rebuttal and Cross-Answering Testimony?

¹ The Stipulating Parties are: NW Natural Gas Company d/b/a NW Natural, 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, hereinafter “Stipulating Parties”.

1 A. Yes. It was important to keep the arguments against both Staff's initial proposal and
2 the Stipulating Parties' proposed treatment of COVID-19 costs in one set of
3 testimony allowing the Commission to track SBUA's objections and arguments more
4 easily. This is especially important since the Second Partial Stipulation has adopted
5 many of the same errors in ratemaking that Staff originally proposed. My Objection
6 Testimony will address only in summary the arguments against the Second Partial
7 Stipulation and instead request the reader to refer to my June 30, 2022, Rebuttal and
8 Cross Answering Testimony for the full discussion.

9

10 **II. PROPOSED SETTLEMENT TREATMENT OF COVID-19 COSTS**

11 **Q. Did you review the proposed treatment of the deferred COVID-19 costs**
12 **included in the Second Partial Stipulation?**

13 A. Yes. As with my Rebuttal and Cross-Answering Testimony, I am recommending the
14 Commission reject the part of the Second Partial Stipulation that is associated with
15 the COVID-19 deferrals.

16 **Q. Could you explain why you are recommending the Commission reject the**
17 **ratemaking approach used by the Stipulating Parties for the COVID-19 costs?**

18 A. Yes. The Second Partial Stipulation proposes cost treatments that are not consistent
19 with sound ratemaking theory resulting in rates that are not fair, just, nor reasonable
20 impacting all customer classes but specifically the small business class.

21 **Q. When you say not consistent with sound ratemaking theory, could you be more**
22 **specific?**

1 A. Yes. In a broad sense, the Second Partial Stipulation proposal has two major failures.
2 First, the Second Partial Stipulation proposes COVID-19 cost allocation improperly
3 grouping dissimilar costs together for the use of a single allocator. The costs
4 included in the grouping labeled COVID-19 costs are actually made up of six
5 different cost types, each with different cost profiles, yet the Second Partial
6 Stipulation's proposed allocation simply sums these unrelated costs into a single
7 figure with no recognition nor any discussion of their reasoning.
8 Second, the proposed cost allocation fails to apply the appropriate allocator to
9 recover the cost from each customer class. Instead, the Second Partial Stipulation
10 proposal erroneously uses the forward-looking allocation factor filed May 31, 2022
11 ("First Partial Stipulation") in the Multi-Party Stipulation Regarding Revenue
12 Requirement, Rate Spread And Certain Other Issues² to spread the costs to each rate
13 schedule. This is no small matter. Using a forward-looking allocator to recover
14 deferred historical costs violates the matching principle resulting in costs that were
15 *incurred* by one customer class, now being paid by different customer class, and in
16 this case, that would most likely be the small business class since the small business
17 class paying 3.3 percent more solely because the settlement uses the incorrect
18 forward-looking test-year allocator. It is interesting to note that where all the other
19 non-residential rate classes have a combined decrease of 8.9%. Is it no wonder that
20 no other party joined SBUA in objecting to the proposed treatment for COVID-19
21 costs?

² First Partial Stipulation Stipulating Parties are NW Natural, Staff, CUB, AWEC, and SBUA

1 **Q. Do you have other concerns regarding the Commission approving the Second**
2 **Partial Stipulation's COVID-19 treatment?**

3 A. Yes, I also have serious policy concerns. I strongly recommend the Commission
4 closely review the Second Partial Stipulation's proposed treatment of COVID-19
5 costs not only because the agreement fails in ratemaking theory, but also because it
6 has serious policy implications. The Commission approving the proposed simple
7 arithmetic summation of dissimilar costs sets a bad precedent. It also disregards clear
8 cost profiles while also approving allocation of two cost categories that do not yet
9 exist.

10 The reality is the proposed cost treatment of COVID-19 costs unreasonably
11 shifts costs to the small business community that is being served by NW Natural
12 during a time of increasing inflation causing overhead costs to grow as identified in
13 public comment in Exhibit 301/Kernode/1. These COVID-19 costs were incurred
14 and should be paid. However, using an improper allocation of costs to simply shift
15 costs to small business is damaging to not just the local small businesses, but the
16 communities they serve.

17 **Q. You proposed an approach, could you briefly summarize it here?**

18 A. My proposed approach looks closely at each cost category and allocation. The
19 approach, based on the ratemaking theory that burden follows benefit, fairly allocates
20 these costs to correct customer groups. For example, the cost of the COVID-19 Bill
21 Payment Assistance Program is allocated to the residential class since no other rate
22 class received the benefits associated with the program. My proposal recognizes the
23 clear cost profiles for each category. Again, my Rebuttal and Cross-Answering

1 Testimony of Danny Kermode, CPA-Retired filed on June 30, 2022, has an
2 expanded discussion of my proposal.

3 In short, the proposal presented in my Rebuttal and Cross-Answering
4 Testimony is easy to understand, theoretically correct, and fair, whereas the approach
5 proposed by the Stipulating Parties fails to fairly allocate costs resulting in a rate
6 proposal that is nether fair, just, nor reasonable.

7 **Q. Does this conclude your testimony?**

8 **A. Yes.**

9

From: Tom Hering tom@benefitcorporationsforgood.com
Subject: Public Comment re NW Natural Rate Case
Date: March 14, 2022 at 10:03 AM
To: puc.hearings@state.or.us



Greetings:

I'm the managing partner of Benefit Corporations for Good, a growing community of 70 small businesses dedicated to the triple bottom line of People, Planet and Profit. Many of them are current NW Natural customers.

I am giving a thumbs-down to the proposed 10.3% rate increase proposed by NW Natural.

This is a particularly difficult time for small businesses like those in our community to take on more overhead costs, particularly as the pandemic effects are just being mitigated and restaurants and small businesses are re-opening for people coming back into their establishments.

A couple of more specific facts for my disapproval:

- 1) Inflation is at the highest point in nearly 40 years; which means higher all-around business operating costs
- 2) Supply chain challenges and labor shortages are already making it difficult for a small business to (a) recover, and (b) grow post-pandemic
- 3) Incentives from the Energy Trust for small businesses including "cooking" are ending

Please vote "no" to this proposed rate increase by NW Natural.

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Get our book "[Putting Soul Into Business](#)" *here*.

