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June 8, 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 a copy of the Stipulating Parties' Joint Testimony in Support of the Stipulation.

Please contact this office with any questions.

Sincerely,

Suzanne Prinsen

Suzanne Prinsen
Legal Assistant

Attachment

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKETS NO. UG 435 and UG 411 (Consolidated)

Joint Testimony in Support of Stipulation

Stipulating 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 Small Business Utility Advocates

NW NATURAL-STAFF-CUB-AWEC-SBUA EXHIBIT 100

Joint Testimony of Zachary D. Kravitz, Brian Fjeldheim, William Gehrke, Bradley Mullins, and Danny Kermode

June 8, 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 Small Business Utility Advocates ("SBUA"), (collectively, the "Stipulating Parties").

Q. Please provide your names, positions, and qualifications.

A. My name is Zachary D. Kravitz, and my current position is Senior Director of Rates & Regulatory Affairs for NW Natural. My qualifications are provided in Exhibit NW Natural/100.

My name is Brian Fjeldheim. I am a Senior Financial Analyst employed in the Rates, Finance and Audit Division of the Public Utility Commission of Oregon ("Commission"). My qualifications are provided in Exhibit Staff/201.

My name is William Gehrke, and I am a Senior Economist for CUB. My qualifications are provided in Exhibit CUB/201.

My name is Bradley G. Mullins, and I am a Consultant for MW Analytics, an independent consulting firm representing utility customers before state public utility commissions in the Northwest and Intermountain West. My qualifications are provided in Exhibit AWEC/101.

My name is Danny Kermode. I am self-employed as a Certified Public Accountant providing consulting services for organizations in utility regulatory matters. My qualifications are provided in Exhibit SBUA/101.

Q. What is the purpose of this Joint Testimony?

A. This Joint Testimony describes and supports the Stipulation filed in this docket on May 31, 2022. The Stipulation addresses all issues among the Stipulating Parties, except those that are listed in Paragraph 14 of the Stipulation will continue to be litigated in these consolidated cases or, pending additional settlement discussions, may be incorporated into a separate stipulated agreement in the future. The Coalition of Communities of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon Environmental Council, Community Energy Project, and Sierra Club (collectively, the "Coalition"), is also a party to these consolidated proceedings, but does not join the Stipulation.

II. BACKGROUND

Q. Please summarize the background and context of Docket UG 435.

A. On December 17, 2021, NW Natural filed a request for a general rate increase (the "Initial Filing") to become effective November 1, 2022 (the "Rate Effective Date"). The Company developed the case using the test year comprised of the 12 months ending October 31, 2023 ("Test Year"), and a historical base year of the 12 months ending December 31, 2021 ("Base Year"). The Company's Initial Filing requested a revision to customer rates that would increase the Company's annual Oregon jurisdictional revenues by $73.5 million, which would have resulted in an approximate 9.9 percent increase to current customer rates, or a margin rate increase of 16.5 percent.[1] On February 28, 2022, NW Natural made an errata filing increasing the revenue requirement to $78.020 million (the "Errata Filing"), which would result in an approximate 10.56 percent increase to revenues collected from customers' base rates, or a 17.5 percent margin rate increase.[2]

[1] Initial Filing, NW Natural's Executive Summary at 1.
[2] ERRATA NW Natural/100, Anderson-Kravitz/17.

Administrative Law Judge ("ALJ") Sarah Spruce convened a prehearing conference on January 19, 2022, and on January 25, 2022, issued a Procedural Conference Memorandum setting forth the UG 435 schedule and consolidating UG 411 with UG 435. In accordance with ALJ Spruce's January 25, 2022, UG 435 Procedural Conference Memorandum, the effective date for rates will be November 1, 2022.

Q. Please summarize the background and context of Docket UG 411.

A. NW Natural filed Advice No. 20-19 on December 4, 2020, to add Schedule 198, Renewable Natural Gas Recovery Mechanism, to the Company's tariff. Schedule 198 as proposed would establish an automatic adjustment clause, as defined in ORS 757.210, that would enable the Company to recover the revenue requirement associated with prudently incurred qualified investments in renewable natural gas ("RNG") to meet the targets in ORS 757.396. On February 18, 2022, the Company filed its Opening Testimony in UG 411 on its Renewable Natural Gas Recovery Mechanism.

Q. Have the Stipulating Parties conducted discovery in these consolidated cases?

A. Yes. Since the Initial Filing, NW Natural has responded to 734 data requests from Staff, CUB, AWEC, and SBUA, and has provided updates to its data responses during the pendency of this case.

Q. Did Staff, CUB, AWEC, and SBUA propose adjustments to NW Natural's Initial Filing?

A. Yes, these parties each filed opening testimony on April 22, 2022, in which they proposed adjustments to NW Natural's Initial Filing. While each of the parties took different positions and made different arguments, collectively they had adjustments to NW Natural's proposed revenue requirement, the supplemental schedules, rate spread and rate design as well as certain changes to Company practices. Staff, AWEC and CUB also contested

NW Natural's proposed Cost of Capital.

Q. Have the parties to this proceeding engaged in settlement discussions?

A. Yes, all parties engaged in settlement discussions. On January 21, 2022, the parties to the case at that time (NW Natural, Staff, CUB, AWEC) held a settlement conference regarding cost of capital, and on February 4, 2022, the same parties held a workshop addressing TSA Security Directive 2. Staff and intervenors filed their Opening Testimony on April 22, 2022, and thereafter all parties participated in settlement conferences on May 4, 2022, May 11, 2022, May 17, 2022, and May 20, 2022. As a result of the settlement discussions, the Stipulating Parties reached a partial settlement of the issues in these consolidated cases, resolving all issues except for those issues that are specifically excluded per Paragraph 14 of the Stipulation. Additionally, the Stipulating Parties understand that the Coalition intends to litigate certain issues included in the Stipulation. The Stipulation memorializes the Stipulating Parties' agreements.

Q. Although the Coalition did not join the Stipulation, did the Coalition participate in settlement discussions?

A. Yes, while the Coalition ultimately did not join the Stipulation, the Coalition participated in all of the settlement discussions beginning on May 4, 2022.

Q. Please provide an overview of the Stipulation and related appendices.

A. The Stipulation represents the settlement of all revenue requirement issues among the Stipulating Parties, including NW Natural's Cost of Capital, exclusive of those included in Paragraph 14 of the Stipulation, and also resolves rate spread and certain other issues. Appendix A to the Stipulation shows the adjustments to the Company's Initial Filing that the Stipulating Parties used to arrive at the $62.654 million revenue increase, including the Stipulating Parties' agreement regarding Cost of Capital components. Appendix B includes the combined effects and rate spread of the agreed upon revenue requirement items (including Plant EDIT amortization credit) and Appendix C is a list of agreed-upon capital projects that were not completed as of the date the Stipulation was executed, but which the Company anticipates will be completed and in service by October 31, 2022.

III. REVENUE REQUIREMENT ISSUES

Q. Please summarize the adjustment to revenue requirement agreed upon by the Stipulating Parties.

A. The Stipulating Parties agreed that the total increase to NW Natural's annual Oregon revenue requirement is $62.654 million, subject to certain potential adjustments specifically identified in the Stipulation. The annual revenue requirement increase in these consolidated proceedings is based on the Stipulating Parties' agreement that the Company's requested Oregon-allocated increase to annual revenue requirement should be reduced by a total of $15.366 million from the February 28, 2022, Errata Filing amount of $78.020 million, based on the adjustments to NW Natural's Initial Filing and Errata Filing described in further detail below.

This level of revenue increase will result in an 8.5 percent overall increase (including gas costs for sales customers), or a 14.1 percent margin increase to rates, and a $5.66 impact on the average residential monthly bill.

Q. Do the Stipulating Parties agree on all the methodologies employed to determine each adjustment?

A. No, the Stipulating Parties do not necessarily agree upon all the methodologies used to determine each adjustment included in the Stipulation. However, the Stipulating Parties believe that, collectively, all the agreed-upon adjustments represent a reasonable settlement of the issues in the Stipulation, and that, taken together, the adjustments result in an overall revenue requirement that will produce rates that are fair, just, and reasonable. As such, the Stipulating Parties agree that the Stipulation is in the public interest and support Commission adoption of its terms.

Q. Does the Stipulation resolve all issues among the Stipulating Parties?

A. No. Paragraph 14 of the Stipulation contains the issues explicitly excluded from the Stipulation by the Stipulating Parties. The Stipulating Parties agree that the Paragraph 14 issues will continue to be litigated in these consolidated cases or, pending additional settlement discussions, may be incorporated into a separate stipulated agreement entered into at a later date.

a) Escalation

Q. Please describe the Stipulating Parties' agreement regarding the Company's methodology for developing Test Year O&M non-payroll costs.

A. Except for several specific items, NW Natural developed Test Year O&M non-payroll costs using year-over-year rates of change in the forecast of the West Region Urban Consumer Price Index ("CPI") as reported in the December 2021 Oregon Economic and Revenue Forecast, published by the Office of Economic Analysis ("OEA").[3] NW Natural explained in its Initial Filing that the regional CPI is more representative of the price changes experienced by the Company because most of the Company's non-payroll expenses are regional purchases.[4] In its Opening Testimony, Staff recommended using the All-Urban CPI instead of the West Region Urban CPI, explaining that Staff's use of the All-Urban CPI is a longstanding practice and that local economic conditions are represented in the All-Urban CPI because the Bureau of Labor Statistics includes prices in Oregon when it

[3] NW Natural/1200, Davilla/8.
[4] NW Natural/1200, Davilla/9.

conducts its CPI survey.[5] Staff proposed an additional $67 thousand O&M increase to account for the use of the All-Urban CPI.[6]

As a result of their settlement discussions, the Stipulating Parties have agreed to an increase to expense of $67 thousand.[7] This adjustment results in an increase to revenue requirement of $69 thousand.[8]

Q. Please explain why the Stipulating Parties' agreement regarding escalation is reasonable.

A. The Stipulating Parties agree that, in the context of an overall settlement, the increase to expense provides fair and reasonable Test Year estimates for O&M non-payroll costs.

b) Oregon Corporate Activity Tax

Q. Please describe the Stipulating Parties' agreement regarding Oregon's Corporate Activity Tax ("CAT").

A. The CAT is a tax on businesses with commercial activity in Oregon, which is levied for the privilege of doing business in Oregon. It applies to all business entity types and includes businesses located inside and outside of Oregon. Businesses with taxable commercial activity in excess of $1 million must pay the CAT. The tax is $250 plus 0.57 percent of taxable commercial activity greater than $1 million after subtractions. Taxable commercial activity subject to the 0.57 percent tax rate is generally gross receipts from Oregon sources, less a subtraction for 35 percent of the greater of labor costs or the cost of goods sold related to Oregon gross receipts. The CAT is directly impacted by the revenues the Company receives. Therefore, the Company calculated its Test Year CAT expense of

[5] Staff/300, Fox/8.
[6] Staff/300, Fox/8. Staff proposed using the March 2022 report, released February 9, 2022, which at the time was the most recent release of the All-Urban CPI. Staff/300, Fox/6.
[7] Stipulation at 3.
[8] *Id*.

$6.658 million in its Initial Filing based on the total revenue requirement it proposed in this proceeding.[9]

In its Opening Testimony, Staff did not dispute the Company's methodology for calculating the CAT but argued that the CAT expense would need to be reduced to reflect reductions to the Company's requested rate increase because the CAT is tied to revenues.[10] Staff also correctly identified a minor error in NW Natural's CAT increase calculation[11] and took issue with the Company not initially including the CAT as a deductible expense for state tax purposes in the Company's tax provision. Through the discovery process Staff and NW Natural confirmed that the CAT is a deductible expense, but disagreed on the appropriate revenue requirement adjustment.[12] Staff ultimately concluded, however, that the appropriate amount of CAT expense is not to exceed the $3.658 million included in NW Natural's Initial Filing.[13]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to revenue requirement of $299 thousand.[14]

Q. Please explain why the Stipulating Parties' agreement regarding CAT expense is reasonable.

A. The agreed upon reduction to NW Natural's revenue requirement corrects the Company's calculation of the CAT expense and reflects that the Oregon CAT is a deductible expense. The Stipulating Parties agree that, in the context of an overall settlement, the amount of the adjustment related to the CAT expense is reasonable.

[9] NW Natural/1300 – WP1 – Revenue Requirements Model.xlsx, Proof of Cat in Proposed Total.
[10] Staff/300, Fox/12.
[11] Staff/300, Fox/12-13.
[12] Staff/300, Fox/13-14.
[13] Staff/300, Fox/14.
[14] Stipulation at 3.

c) Property Taxes

Q. Please describe the Stipulating Parties' agreement regarding property taxes.

A. In its Initial Filing NW Natural proposed $27.172 million in Test Year property taxes.[15] NW Natural calculated its Test Year property tax by determining a weighted average percentage rate of Oregon property tax expense relative to Oregon net plant using actual results for 2019, 2020, and 2021, and applying that average rate to net plant for year-end 2022 and 2023 to provide forecasted property tax assessments for 2022 and 2023, respectively, which assessments are then combined at a ratio of eight months of 2022 and four months of 2023 to arrive at Test Year property tax value.[16] In its Errata Filing, the Company increased its estimated net plant at December 2022,[17] which revision resulted in a reduction to weighted average property tax ratio,[18] which in turn reduced NW Natural's Test Year property tax expense to $27.125 million.[19]

In its Opening Testimony, Staff recommended that the Commission accept NW Natural's proposed reduction in property tax expense of $47 thousand based on the Errata Filing and that the final property tax expense be adjusted to reflect the actual level of rate base approved.[20]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to revenue requirement of $61 thousand.[21]

[15] NW Natural/1302, Walker/1, Line 13.
[16] NW Natural/1300, Walker/16-17. The supporting calculation was disclosed in NW Natural/1311, Walker.
[17] Errata NW Natural/1311, Walker/1, Line 6, Column F.
[18] Errata NW Natural/1300, Walker/16.
[19] Errata NW Natural/1302, Walker/1, Line 13.
[20] Staff/300, Fox/21.
[21] Stipulation at 4.

Q. Please explain why the Stipulating Parties' agreement regarding property taxes is reasonable.

A. The agreed upon reduction to NW Natural's revenue requirement for property taxes accounts for the increase to NW Natural's net plant and corresponding decrease to the Company's weighted average property tax ratio. The Stipulating Parties agree that, in the context of an overall settlement, the amount of the adjustment related to NW Natural's property tax expense is reasonable.

d) OPUC Fee

Q. Please describe the Stipulating Parties' agreement regarding the OPUC fee.

A. In its Initial Filing NW Natural proposed a Commission regulatory fee of $2.784 million[22] based on an OPUC Fee rate of 0.375 percent multiplied by total revenues for both the Base Year and Test Year.[23] Staff recommended an increase of $408 thousand for the OPUC Fee, which Staff calculated based on the most recent rate of 0.43 percent set in Order No. 22-062, which was issued after the Company's Initial Filing, multiplied by Test Year gross revenue in the Company's filing.[24]

As a result of their settlement discussions, the Stipulating Parties have agreed to an increase to revenue requirement of $420 thousand.[25]

Q. Please explain why the Stipulating Parties' agreement regarding the OPUC Fee is reasonable.

A. The agreed upon increase to NW Natural's revenue requirement for the OPUC Fee is reasonable because it aligns with the Commission's updated fee structure established in

[22] NW Natural/1311, Walker/1, Line 12.
[23] NW Natural/1300. Walker/17.
[24] Staff/300, Fjeldheim/25.
[25] Stipulation at 4.

2022 and the Stipulating Parties agree that, in the context of an overall settlement, the amount of the adjustment related to NW Natural's OPUC Fee is reasonable.

e) Federal Income Tax – ARAM EDIT

Q. Please describe the Stipulating Parties' agreement regarding federal income tax – ARAM EDIT.

A. Excess Deferred Income Taxes ("EDIT") are deferred taxes paid by customers in rates prior to 2018 that became refundable as a result of the Tax Cuts and Jobs Act of 2017 ("TCJA"). Per the Commission's order concluding NW Natural's General Rate Case UG 344, the Commission approved the agreement of all parties that NW Natural would provide three distinct categories of regulatory EDIT benefits to customers: Plant, Non-Plant, and Gas Reserves.[26] The Company provided the full benefit of Non-Plant EDIT to customers in March 2019 consistent with Order No. 19-105, providing the Plant benefits to customers subject to the timing limitations of the average rate assumption method ("ARAM") from Order No. 20-364 and providing the Gas Reserves benefits to customers over a shorter amortization period established in Order No. 20-364 on a temporary adjustment schedule.

In its Initial Filing, the Company included Plant EDIT (or "ARAM EDIT") amortization in the amount of $3.0 million for the Test Year,[27] an amount unchanged from NW Natural's UG 388 General Rate Case, thereby providing the same annual benefit to customers.[28] The Company proposed continuing to use the $3.0 million annual Plant EDIT to avoid exceeding the ARAM "speed limit," which is the maximum rate that ARAM EDIT benefits can be returned to customers without triggering a normalizing violation, where

[26] *In re Nw. Nat. Gas Co., dba NW Natural, Request for a Gen. Rate Revision*, Docket UG 344, Order No. 19-105 (Mar. 25, 2019).
[27] NWN/1308, Walker/1, line 13, columns (b) and (d), which also include Federal R&D credits of $82 thousand and $83 thousand, respectively.
[28] NW Natural/1300, Walker/16.

such a violation of the normalization rules would eliminate the Company's ability to use accelerated depreciation for tax purposes and result in significant negative implications for the Company's cash flow.[29]

In its Opening Testimony, Staff recommended increasing the ARAM EDIT amortization in rates from $3.0 million to $3.1 million, thereby returning benefits to customers faster and decreasing the amount of NW Natural's federal tax expense by $100 thousand per year.[30]

As a result of their settlement discussions, the Stipulating Parties have agreed to Staff's proposal, which results in a reduction to revenue requirement of $141 thousand.[31]

Q. Please explain why the Stipulating Parties' agreement regarding the federal income Tax – ARAM EDIT is reasonable.

A. The agreed upon decrease to NW Natural's revenue requirement for the ARAM EDIT provides a benefit to NW Natural's customers while staying under the ARAM "speed limit" and avoiding a normalization violation. The Stipulating Parties agree that, in the context of an overall settlement, the amount of the adjustment related to NW Natural's ARAM EDIT is reasonable.

f) Materials and Supplies

Q. Please describe the Stipulating Parties' agreement regarding materials and supplies.

A. In its Initial Filing, NW Natural included $16.5 million in rate base for materials and supplies, which was derived using trended amounts based on historical balances of actual material and supplies inventory and a 13-month average of monthly averages ("AMA") for

[29] Staff/300, Fox/16-17.
[30] Staff/300, Fox/17.
[31] Stipulation at 4.

the Test Year.[32] This request represented a $2.37 million increase from the $14.17 million included in the Base Year[33] and the Company based its request on the price increases and increased lead times it experienced during the COVID-19 pandemic.[34]

In its Opening Testimony, Staff disagreed with the Company's forecast that materials and supplies costs will continue to grow at the same rate as in 2021 and recommended an adjustment of $2.37 million from the Test Year, holding the materials and supplies account at the Base Year average of $14.17 million.[35]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to rate base of $1.140 million. This adjustment results in a reduction to revenue requirement of $101 thousand.[36]

Q. Please explain why the Stipulating Parties' agreement regarding materials and supplies is reasonable.

A. The agreed upon decrease to NW Natural's rate base represents a compromise between the assumptions and modeling performed by the Company witness and by Staff. The Stipulating Parties agree that, in the context of an overall settlement, the amount of the adjustment related to NW Natural's materials and supplies is reasonable.

g) Land & Structure Adjustment

Q. Please describe the Stipulating Parties' agreement regarding the land & structure adjustment.

A. In its Initial Filing, NW Natural included net plant of $103 million for land and structures.

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[32] NW Natural/1300, Walker/23.
[33] NW Natural/1312, Walker/1 Line 8, Column (c).
[34] Staff/502, Bolton/4-5 (NW Natural response to OPUC DR 434 and 435).
[35] Staff/500, Bolton/6.
[36] Stipulation at 4.

Through the discovery process, NW Natural discovered that it made an inadvertent error in its plant projections for land and buildings, which resulted in the Company understating capital by $1.75 million.[37] The Company provided an update to its rate base in its response to OPUC DR No. 328 and the correction resulted in an increase to plant in service of $2.3 million, an increase in accumulated depreciation of $502 thousand, and an increase in depreciation expense of $502 thousand.[38] In its Opening Testimony, Staff recommended that the Commission approve the proposed Land & Structure Adjustment because it represented a correction to an error in NW Natural's Initial Filing.[39]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to an increase to expense of $501 thousand and an increase in rate base of $2.755 million.[40] These adjustments result in an increase to revenue requirement of $759 thousand.[41]

Q. Please explain why the Stipulating Parties' agreement regarding the land & structure adjustment is reasonable.

A. The agreed upon increases to rate base and expense for the Land & Structures are reasonable because they correct errors in the Initial Filing and accurately reflect the Company's plant projections for land and structures. The Stipulating Parties agree that, in the context of an overall settlement, the Land & Structures adjustments are reasonable.

[37] Staff/302, Fox/10 (NW Natural Response to OPUC DR 172). Staff's Opening Testimony at Staff/300, Fox/34-35 includes the details of NW Natural's proposed adjustments to its Initial Filing.
[38] Staff/300, Fox/35.
[39] Staff/300, Fox/35.
[40] Stipulation at 4.
[41] *Id*.

h) Reduced Budget for District Regulators

Q. Please describe the Stipulating Parties' agreement regarding a reduced budget for district regulators.

A. The Company uses district regulators to regulate gas in connection with distribution system operations other than gas deliveries to customers, and in its Initial Filing, NW Natural included $6.2 million for the budget for this capital expenditure. Staff conducted discovery on NW Natural's budget for district regulators in 2022 and in response to Staff's data request, the Company acknowledged that its Initial Filing included an error, and that the 2022 district regulator budget included $2.56 million ($2.47 million Oregon-allocated) in funds for future projects that it planned to identify in 2022, which should have been removed once the 2022 budget was finalized.[42] Staff correspondingly recommended reducing utility plant by $2.560 million.[43]

The Stipulation incorporates an Oregon-allocated reduction to rate base of $2.470 million, which results in a reduction to revenue requirement of $218 thousand.[44]

Q. Please explain why the Stipulating Parties' agreement regarding a reduced budget for district regulators is reasonable.

A. The agreed rate base reduction reflects the value of the District Regulators that the Company expects to place in service in 2022. The Stipulating Parties agree that, in the context of an overall settlement, the reduced budget for District Regulators is reasonable.

i) Directors and Officer Insurance Premiums and Meals & Entertainment Expense

Q. Please describe the Stipulating Parties' agreement regarding directors and officers insurance and meals and entertainment expense.

[42] Staff/300, Fox/37 (fn. 65) and Staff/300, Fox/29 (fn. 52)
[43] Staff/300, Fox/37.
[44] Stipulation at 4.

A. NW Natural included directors and officers ("D&O") insurance premiums in the Test Year. Staff recommended removing 50 percent of D&O insurance premiums, based on past Commission practice suggesting that the costs of D&O insurance should be shared between shareholders and utility customers.[45]

The Company's Meals and Entertainment category of expenses includes costs for meals during working lunches and while traveling for business purposes. The Company included an adjustment to normalize for the impacts of COVID-19 during the Base Year ("COVID-19 Normalization") on several categories of O&M non-payroll expense, including Meals & Entertainment, and this adjustment brought the Test Year expense to a level comparable to the three-year average experienced by the Company from 2017 through 2019 in real dollars.[46]

In its Opening Testimony, Staff recommended reducing the Company's Oregon-allocated Test Year expenses for Meals and Entertainment and Miscellaneous Operations and Maintenance Expenses by $541,000.[47] To arrive at this figure, Staff reviewed the expenses to determine whether they benefit customers or are discretionary and should be shared between customers and shareholders.[48] Items Staff found to have no benefit to customers, Staff excluded at 100 percent.[49] Those expenses Staff believed benefitted both customers and shareholders, Staff disallowed at 50 percent.[50] Once Staff determined the disallowance based on 2021 dollars, Staff escalated the remaining

[45] Staff/1000, Jent/24.
[46] NW Natural/1200, Davilla/10.
[47] Staff/1200, Rossow/10.
[48] Staff/1200, Rossow/8-9.
[49] Staff/1200, Rossow/9.
[50] Staff/1200, Rossow/9.

expenses using the All Urban CPI of 4.2 percent and 2.2 percent, year over year for 2022 and 2023, respectively, to arrive at the Test Year adjustment.[51]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to expense of $632 thousand for Director and Officer Insurance Premiums and Meals & Entertainment Expense.[52] This adjustment results in a reduction to revenue requirement of $650 thousand.[53]

Q. Please explain why the Stipulating Parties' agreement regarding D&O Insurance Premiums and meals & entertainment expense is reasonable.

A. The agreed upon reduction for D&O insurance expense reflects a reasonable compromise between the Company's position that utility-allocated D&O insurance costs are a necessary, and therefore prudently incurred, cost of doing business that is dedicated to the regulated utility's stability and security, and Staff's position that customers should not be held financially responsible for providing the full costs of providing liability insurance for utility officers and directors.[54] Additionally, the reduction to Meals & Entertainment expense strikes a balance between Staff's view of these expenses as discretionary and the Company's view that they are prudently incurred business expenses. The Stipulating Parties agree that, in the context of an overall settlement, the reductions to Director and Officer Insurance Premiums and Meals & Entertainment Expense are reasonable.

j) Membership & Dues

Q. Please describe the Stipulating Parties' agreement regarding memberships and dues.

[51] Staff/1200, Rossow/9.
[52] Stipulation at 4.
[53] *Id*.
[54] Staff/1000, Jent/24-25.

A. NW Natural's Initial Filing included an Oregon-allocated Test Year expense for dues and memberships of $788,946,[55] a reduction from the $979,930 Base Year Oregon-allocated expenses.[56]

Staff recommended an adjustment of $443,905 based on its analysis of NW Natural's expenses for dues and memberships.[57] To arrive at this figure, Staff established an Oregon-allocated 2021 Base Year of actual dues and membership expenses and used NW Natural's Oregon-allocated 2021 transactional data for non-payroll expenses for each FERC account and escalated to approximate the Test Year expense by applying the All-Urban CPI of 4.2 and 2.2 percent, respectively to arrive at the Test Year adjustment.[58] Staff then recognized all the expenses associated with industry research organizations but proposed a 25 percent disallowance for expenses associated with national and regional industry organizations and a 100 percent disallowance of the expenses associated with technical, commercial, economic development organizations and transactions Staff felt lacked sufficient description to identify the name of the organization.[59]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to expense of $443 thousand.[60] This adjustment results in a reduction to revenue requirement of $456 thousand.[61]

Q. Please explain why the Stipulating Parties' agreement regarding membership & dues is reasonable.

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[55] Staff/1202, Rossow/1, NWN Response to Staff DR 138.
[56] Staff/1202, Rossow/1, NWN Response to Staff DR 138.
[57] Staff/1200, Rossow/6.
[58] Staff/1200, Rossow/5.
[59] Staff/1200, Rossow/6.
[60] Stipulation at 4.
[61] Stipulation at 4.

A. The Stipulating Parties do not necessarily agree on the extent to which NW Natural's customers benefit from the Company's memberships and dues expenses but do agree that this adjustment ($443,000 in expense) resulting in a revenue requirement reduction of $456,000 is reasonable and appropriate. The Stipulating Parties have further determined that this reduction results in an overall fair resolution of this issue. The resolution of this issue indicates that all Stipulating Parties may not agree that NW Natural's customers benefit from membership and dues expense, but, taken in the context of the broader settlement, the resolution is reasonable.

k) Operations and Maintenance Expense and Administrative and General Expense

Q. Please describe the Stipulating Parties' agreement regarding operations and maintenance ("O&M") expense and administrative and general expense ("A&G").

A. In its Initial Filing, NW Natural proposed increasing non-labor O&M expenses from the Base Year by "escalat[ing] general non-payroll costs using year-over-year rates of change in the forecast of the West Region Urban CPI" and applying the factors on January 1, 2022, and January 1, 2023.[62] In Staff's opening testimony, Staff recommended an adjustment of $415,623 to Test Year non-labor O&M expense to "normalize" the Test Year expense for FERC Accounts 879 (Customer Installation Expenses) and 893 (Meters & House Regulators).[63] To arrive at this amount, Staff averaged the expenses in the Base Year for these two FERC Accounts and the two preceding years and escalated to the Test Year using the All-Urban CPI (4.2 for 2022 and 2.2 for 2023).[64] Staff testified that they calculated the forecasted Test Year expenses using a three year average instead of the

[63] Staff/900, Farrell/8.
[63] Staff/900, Farrell/8.
[64] Staff/900, Farrell/4.

Base Year.[65] Staff also reiterated its preference to use the All-Urban CPI, as opposed to the West Region Urban CPI relied on by the Company.[66] AWEC recommended that the Company base its non-labor O&M expenses on NW Natural's known and measurable Base Year levels—with minor adjustments to account for the nine discrete adjustments NW Natural made to certain categories—and that the Company remove the CPI escalation, resulting in a $5,688,325 reduction to operating expenses and a corresponding $6,332,451 reduction to revenue requirement after revenue sensitive costs.[67]

Staff also recommended an adjustment of $745,499 to the Company's Test Year non-labor A&G expense for FERC Account 930 (Miscellaneous General Expenses).[68] Staff again arrived at its recommended disallowance by applying the All-Urban CPI forecast, a three-year historical average of FERC Account 930 expenses.[69]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to expense of $972 thousand for O&M Expense and A&G Expense.[70] This adjustment results in a reduction to revenue requirement of $1.0 million.[71]

Q. Please explain why the Stipulating Parties' agreement regarding O&M non-labor expense and A&G expense is reasonable.

A. The Stipulating Parties identified different baseline amounts—and have different views on which CPI most accurately reflects regional price increases—but agree that this adjustment results in a revenue requirement for FERC Accounts 879, 893, and 930 that is reasonable in the context of the overall settlement in the case. The Stipulating Parties

[65] Staff/900, Farrell/6.
[66] Staff/900, Farrell/8.
[67] AWEC/100, Mullins/16.
[68] Staff/900, Farrell/15.
[69] Staff/900, Farrell/13-14.
[70] Stipulation at 4.
[71] *Id.*

have further determined that this reduction contributes to the overall fair resolution of this case.

l) Advertising Expense

Q. Please describe the Stipulating Parties' agreement regarding advertising expense.

A. In its Initial Filing, NW Natural included $2,900,950 in Advertising Expense for the Test Year,[72] which includes Category A and B advertising.[73] NW Natural has budgeted $600,000 for Category C advertising expense in the Test Year, but did not include these expenses in its request, and did not book expenses for Category D or E for 2019-2021.[74] For Category A communications expense—for which expenditures up to 0.125 percent of gross retail operating expenses are presumed just and reasonable[75]—the Company requested a Test Year value of $2.60 per customer, which it testified is consistent with the spending of its peer utilities, Portland General Electric Company and PacifiCorp.[76]

In Opening Testimony, Staff recommended that NW Natural's advertising expenses for its Renewable Natural Gas program should be reclassified from Category A to Category C expense and further recommended bringing the Company's Test Year budget down to the amount presumed reasonable under OAR 860-026-0022(3)(a),[77] or $1.44 per customer.[78] Staff's proposed disallowance of a portion of NW Natural's Category A advertising expenses stemmed in part from increases to Category A expenses from 2020 to 2021 and Staff's conclusion that the Company had not justified the need for

[72] Staff/1002 (NWN Response to OPUC DR 152).
[73] NW Natural/2100, Davilla/48.
[74] Staff/1002 (NWN Response to OPUC DR 152).
[75] OAR 860-026-0022(3)(a).
[76] NW Natural/900, Beck/2.
[77] Staff/1000, Jent/11.
[78] Staff/1000, Jent/8.

advertising that exceeds what is presumed reasonable under OAR 860-026-0022.[79] In all, Staff recommended an $827,159 disallowance for Category A advertising expenses. Additionally, Staff recommended a $172,904 disallowance for Category B advertising expenses—resulting in an overall downward adjustment to advertising expenses of $1,000,063.[80]

CUB's position was that much of NW Natural's advertising did not provide customers useful information about utility services and information, but instead is designed to promote NW Natural's business and promote natural gas generally and as an alternative to electricity.[81] CUB argued that the Company does not need to increase its advertising spending and recommended a downward adjustment of $1,108,00, to limit NW Natural's Category A advertising down to the level presumed reasonable by rule.[82]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to expense of $1.0 million, which results in a reduction to revenue requirement of $1.029 million.[83]

Q. Please explain why the Stipulating Parties' agreement regarding advertising expense is reasonable.

A. While the Stipulating Parties have different views about the appropriate level of expense for advertising, the significant reduction to the Company's expense for advertising reflects a compromise among the Stipulating Parties. The Stipulating Parties have further determined that this reduction contributes to the overall fair resolution of this issue. The agreed-to reduction to Test Year expense for advertising brings the amount included in

[79] Staff/1000, Jent/12.
[80] Staff/1000, Jent/13.
[81] CUB/100 , Jenks/23.
[82] Cub/100, Jenks/21.
[83] Stipulation at 5.

rates for Category A down to the amount presumed reasonable under administrative rule and removes some Test Year expense for Category B advertising. The Stipulating Parties agree that these reductions ameliorate concerns brought up by intervenors but still enable the Company to recover a reasonable advertising budget.

m) Customer Account and Sales Expense

Q. Please describe the Stipulating Parties' agreement regarding customer account and sales expense.

A. In its Initial Filing, the Company included Oregon-allocated Test Year expenses of $20.442 million for customer accounts expense (FERC Accounts 901-903),[84] $5.923 million for customer service and informational (FERC Accounts 907-910),[85] and $2.111 million for sales expense (FERC Accounts 911-912).[86] Customer account expense accounts include expenses related to supervision, meter reading, and customer records and collection.[87] Customer service expense accounts include expenses related to customer assistance, customer information, and miscellaneous customer services.[88] Sales expense accounts include sales supervision and demonstration and selling expense.[89] Within its customer accounts, customer service, and sales expenses, NW Natural included $2.8 million for customer assistance expense (FERC Account 908) and $2.1 million for demonstration and selling expense (FERC Account 912) in the Test Year.[90]

In its Opening Testimony, Staff recommended an adjustment of $41,112 to customer assistance expense (FERC Account 908) for dealer relations expenses related

[84] NW Natural/1307, Walker/4 at Line 55 Column (b).
[85] NW Natural/1307, Walker/4 at Line 62 Column (b).
[86] NW Natural/1307, Walker/4 at Line 69 Column (b).
[87] NW Natural/1307, Walker/4. Uncollectible accounts in FERC Account 904 are calculated separately.
[88] NW Natural/1307, Walker/4.
[89] NW Natural/1307, Walker/4.
[90] NW Natural/1307, Walker/4.

to building and industry events.[91] Staff further sought reductions to multiple cost elements within the demonstration and selling expense account (FERC Account 912), including corporate identity ($153,043),[92] dealer relations ($92,482),[93] and professional services ($262,000).[94] After escalating the proposed adjustments by the All-Urban CPI for 2022 and 2023, Staff's proposal was to remove a total of $584,841 in the Test Year from the customer accounts expense (FERC Accounts 901-903) and sales expense (FERC Accounts 911-912).[95]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to expense of $292 thousand.[96] This adjustment results in a reduction to revenue requirement of $301 thousand.[97]

Q. Please explain why the Stipulating Parties' agreement regarding customer account and sales expense is reasonable.

A. While the Stipulating Parties have different views regarding the amount of customer account and sales expense that should be included in rates, the Stipulating Parties agree that this adjustment is a compromise that contributes to a fair and reasonable resolution of the issues in this case.

n) Salary, Wages, Stock Expense, Incentives, and Medical Benefits

Q. Please describe the Stipulating Parties' agreement regarding salary, wages, stock expense, incentives, and medical benefits.

[91] Staff/600, Cohen/21.
[92] Staff/600, Cohen/22.
[93] Staff/600, Cohen/22.
[94] Staff/600, Cohen/23.
[95] Staff/600, Cohen/24.
[96] Stipulation at 5.
[97] *Id.*

A. NW Natural's requested revenue requirement included an Oregon-allocated cost of base pay of $45.224 million for bargaining unit ("BU") employees, $57.088 million for non-bargaining unit ("NBU") employees, and $3.748 million for officers ($106 million total base pay, or "wages and salaries").[98] The Company also sought to recover $11.5 million in pay-at-risk for NBU employees and officers.[99] The Company calculated base pay for BU employees according to the terms of the underlying collective bargaining agreement, and for NBU employees, the Company escalated base pay using a methodology involving detailed surveys and trend data.[100] The Company calculated pay-at-risk for NBU employees and officers to ensure total compensation packages are comparable to market levels.[101] NW Natural's requested revenue requirement also included $16.4 million of medical benefits costs for the Test Year.[102]

For base pay and overtime pay, Staff applied its three-year wage and salary model ("W&S Model") to calculate base pay costs in the Test Year, which resulted in proposed adjustments to officer salaries of $28 thousand O&M and $19 thousand capital[103] and overtime of $544 thousand O&M and $365 thousand rate base.[104] For pay-at-risk, Staff proposed an adjustment of $8 million ($4.8 million O&M and $3.2 million capital), based on a proposed disallowance of 100 percent of officer pay-at-risk costs ($4.3 million) and 50 percent of NBU pay-at-risk costs ($3.7 million) that are awarded based on merit.[105] Staff also recommended removing that portion of officer incentives capitalized by the

[98] NW Natural/800, Rogers/5.
[99] NW Natural/800, Rogers/17. The Company initially reported a total of $11.3 million in pay-at-risk but updated this amount during discovery. Staff/602, Cohen/4, NWN Response to Staff DR 265, Tab 267/269, Footnote 2 (electronic spreadsheet).
[100] NW Natural/1700, Rogers/4, 5-6.
[101] NW Natural/1700, Rogers/7.
[102] NW Natural/800, Rogers/18.
[103] Staff/600, Cohen/15.
[104] Staff/600, Cohen/12, 15.
[105] Staff/600, Cohen/14-15.

Company in 2020 and 2021 ($954 thousand) and making smaller adjustments to payroll taxes ($85 thousand) and depreciation ($113 thousand), for a total reduction of $5.6 million to O&M and $2.6 million to capital.[106]

CUB also recommended a reduction to revenue requirement of $6.418[107] million by disallowing 100 percent of executive at-risk compensation and 50 percent of non-executive compensation removing pay-at-risk costs from the Test Year.[108] CUB argued that it is reasonable to exclude at-risk compensation for officers because it benefits shareholders but not customers[109] but recognizes that it is fair for customers to share equally in the cost of non-executive at-risk pay.[110] Additionally, CUB recommended a revenue requirement reduction of $169,000 to exclude all costs associated with the Company's employee stock purchase plan ("ESPP"),[111] while SBUA argued that the Company keep this incentive in place but recognize the stock's book value as the ceiling for ratepayer recovery of share expense for the Test Year—instead of fair market value[112]—which proposal would decrease the Company's total expenses by $187,093, with a related revenue requirement decrease of $263,644.[113] SBUA further recommends a partial disallowance of NWN's restricted stock units ("RSUs") expense—a form of compensation whereby employees are compensated with Company shares—resulting in a decrease of $863,859 with a related revenue requirement decrease of $1,217,350.[114]

[106] Staff/600, Cohen/15.
[107] CUB/200, Gehrke/9.
[108] CUB/200, Gehrke/2-3.
[109] CUB/200, Gehrke/6.
[110] CUB/200, Gehrke/8-9.
[111] CUB/200, Gehrke/12.
[112] SBUA/100, Kermode/16.
[113] SBUA/100, Kermode/19.
[114] SBUA/100, Kermode/22.

AWEC also recommend removing all stock incentive expenses from revenue requirement.[115]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to revenue requirement of $5.25 million.[116] The Stipulating Parties understand that this adjustment removes officer incentives for the Test Year. Additionally, Test Year rate base will be reduced by $4.5 million in recognition of all past capitalized financial performance-based incentives.[117] For regulatory purposes, this $4.5 million rate base adjustment will be amortized over 15 years beginning on the rate effective date of this case, which results in a Test Year reduction to revenue requirement of $397 thousand.[118] The rate base offset for capitalized incentives with a 15-year life will carry over to subsequent rate cases.[119] This additional adjustment resolves all issues regarding past capitalization of incentives.[120]

Q. Please explain why the Stipulating Parties' agreement regarding salary, wages, stock expense, incentives, and medical benefits is reasonable.

A. The Stipulating Parties have different views regarding the appropriate approach for determining the amount of salary, wages, stock expense, incentives and medical benefits that should be included in rates, but have agreed to a compromise that is fair and reasonable for purposes of settlement. Additionally, through settlement discussions, the Stipulating Parties agreed to a significant adjustment for past capitalized incentives, which further aids in the resolution of issues in this proceeding and contributes to the overall fair

[115] AWEC/100, Mullins/16-17.
[116] Stipulation at 5.
[117] *Id.*
[118] *Id*.
[119] *Id.*
[120] *Id.*

resolution of the issues in this Stipulation.

o) Pension and Post-Retirement Medical Expense

Q. Please describe the Stipulating Parties' agreement regarding pension and post-retirement medical expense.

A. In its Initial Filing, the Company proposed a total Test Year post-retirement medical plan expense of $1.3 million, the majority of which cost the Company expenses as an O&M expense. NW Natural also included a total system Test Year pension expense of $7.0 million.[121] The Company's pension expense is comprised of a service component ($5.7 million) that is allocated to O&M and capital based on the payroll work mix, and a non-service component ($1.35 million, or $1.3 million Oregon-allocated) that is expensed as O&M.[122] In its Opening Testimony, Staff recommended increasing the Company's Expected Return on Assets ("EROA")—used to calculate the Company's pension expense—to align with the EROA used by some other utilities and state governments, and raising the discount rates the Company uses in its pension and post-retirement medical benefits calculations to reflect the rise in interest rates since NW Natural filed this rate case.[123] Staff's recommended changes would have the effect of lowering the Company's system-wide pension expense by $6.79 million, or $6.31 million Oregon-allocated, and reducing the post-retirement medical expense by $58 thousand system-wide, or $54 thousand Oregon-allocated.[124]

[121] NW Natural/1200, Davilla/17.
[122] NW Natural/1200, Davilla/17-18.
[123] Staff/700, Dlouhy/2.
[124] Staff/700, Dlouhy/2.

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to expense of $3.4 million.[125] This adjustment results in a $3.499 million reduction to revenue requirement.[126]

Q. Please explain why the Stipulating Parties' agreement regarding pension and post-retirement medical expense is reasonable.

A. While the Stipulating Parties do not agree on an approach to determining pension and post-retirement medical expense, the Stipulating Parties agree that the amount of the adjustment contributes to a fair resolution of revenue requirement in this case.

p) Market Research/Survey and Focus Groups

Q. Please describe the Stipulating Parties' agreement regarding market research/survey and focus groups.

A. In its Initial Filing, the Company requested $53,000 of Oregon-allocated O&M associated with customer surveys and focus groups in the Test Year. In its Opening Testimony, CUB recommended reducing the Company's budget for customer surveys and focus groups by 50 percent to reflect CUB's opinion that at least half of the Company's customer surveys and focus group activities primarily benefit shareholders.[127] CUB's adjustment would result in an estimated $27,000 revenue requirement reduction.[128]

As a result of their settlement discussions, the Stipulating Parties have agreed to CUB's proposed adjustment, which results in a reduction to expense of $26 thousand, and a $27 thousand reduction to revenue requirement.[129]

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[125] Stipulation at 5.
[126] *Id*.
[127] CUB/100, Jenks/20.
[128] CUB/100, Jenks/20.
[129] Stipulation at 5.

Q. Please explain why the Stipulating Parties' agreement regarding market research/survey and focus groups is reasonable.

A. The Stipulating Parties have adopted CUB's proposed adjustment, and agree that this reduction contributes to the overall fair resolution of the issues in the Stipulation.

q) Test Year Plant Additions

Q. Please describe the Stipulating Parties' agreement regarding Test Year plant additions.

A. In its Initial Filing, NW Natural sought to add to its rate base all capital expenditures, both discrete and non-discrete, that will be completed during the Test Year.[130] To ensure customer rates would reflect the Test Year plant additions only to the extent they are used and useful within the Test Year, the Company calculated average rate base balances by utilizing monthly forecast amounts to construct a 13-month average of monthly averages ("AMA") for all rate base components.[131]

In its Opening Testimony, Staff proposed removing all Test Year plant additions, including those related to customer acquisitions.[132] Accordingly, Staff recommended an adjustment to remove Test Year plant in service ($70.8 million), to reduce accumulated depreciation ($42.7 million), and to reduce depreciation expense ($2.2 million).[133] AWEC recommended a nearly 50 percent reduction to NW Natural's plant additions from March to July 2022,[134] and recommended establishing a July 31, 2022 cut-off date for plant in service,[135] and calculating the Company's depreciation expenses over the 12-month

[130] NW Natural/1200, Davilla/23.
[131] NW Natural/1300, Walker/24.
[132] Staff/300, Fox/32.
[133] Staff/300, Fox/33.
[134] AWEC/100, Mullins/9.
[135] AWEC/100, Mullins/10.

period coinciding with the July 31 rate base valuation date.[136] AWEC's proposal would result in a $65.954 million reduction to rate base tied to its adjustment for the March to July plant additions,[137] a $133.644 million rate base reduction with the July 31, 2022 rate base freeze,[138] and a $13.044 million reduction to depreciation expense ($14.521 million reduction to revenue requirement) by adjusting to a 12-month depreciation expense corresponding to the July 31 rate base cutoff.[139]

As a result of their settlement discussions, the Stipulating Parties have agreed to a reduction to rate base of $28.061 million and $2.301 million of expense to reflect removal of projects that will not enter service until after November 1, 2022, except that the Stipulating Parties have agreed to include for the Test Year a portion of the capital additions related to customer acquisitions.[140] These adjustments result in a $4.845 million reduction to revenue requirement.[141]

In recognition of the capital associated with customer acquisitions the Stipulating Parties agree to also include an addition of $24.649 million to rate base and $676 thousand to expense to reflect the capital additions associated with new customers added during the Test Year, which increases revenue requirement by $2.871 million.[142]

Q. Are there any litigated issues that may further impact the revenue requirement associated with the Test Year plant additions?

A. Yes, the Stipulating Parties agree that the revenue requirement associated with:

i. Test Year capital additions related to customer acquisitions, and

[136] AWEC/100, Mullins/11.
[137] AWEC/100, Mullins/9.
[138] AWEC/100, Mullins/9.
[139] AWEC/100, Mullins/11.
[140] Stipulation at 5-6.
[141] Stipulation at 6.
[142] Stipulation at 6.

ii. Revenues associated with new customers added in the Test Year,

may be further increased or decreased as a result of ongoing settlement discussions or litigation related to the Company's line extension allowance.[143] The Stipulating Parties agree that the Stipulation does not create any presumptions about reasonableness of cost recovery for line extensions or customer growth.[144]

Q. Please explain why the Stipulating Parties' agreement regarding Test Year plant additions is reasonable.

A. While the Stipulating Parties have different positions regarding the amount of Test Year plant additions that should be included in rates, the Stipulating Parties have reached a compromise on this issue, and agree that the reduction contributes to the overall fair resolution of the revenue requirement issues in this case.

r) Cost of Capital

Q. Please describe the Stipulating Parties' agreement regarding NW Natural's cost of capital.

A. NW Natural requested in its Initial Filing a continued capital structure of 50 percent equity and 50 percent long-term debt, with an overall rate of return ("ROR") on rate base of 6.886 percent, based on a 4.271 percent embedded cost of long-term debt and a 9.5 percent cost of equity.[145] In Opening Testimony, Staff proposed an overall ROR on rate base of 6.629 percent, based on an embedded 4.258 percent cost of long-term debt and a 9.0 percent cost of equity.[146] CUB and AWEC recommended an ROR of 6.74 percent,

[143] Stipulation at 6.
[144] *Id*.
[145] NW Natural/200, Wilson/3.
[146] Staff/100, Muldoon/17.

consisting of 9.2 percent cost of equity, a 4.27 percent cost of long-term debt, and a 50 percent equity and 50 percent debt capital structure.[147]

As a result of their settlement discussions, the Stipulating Parties agree to a Rate of Return of 6.836 percent, which is based on a 50.0 percent common equity and 50.0 percent long-term debt capital structure, with a Return on Equity ("ROE") of 9.40 percent and cost of long-term debt of 4.271 percent. This Cost of Capital results in a reduction to revenue requirement of $1.212 million.[148]

Table 1 – Cost of Capital Components

Component	Capital Structure	Component Cost	Weighted Cost
Cost of Long-Term Debt	50%	4.271%	2.136%
Return on Common Equity	50%	9.400%	4.700%
		Rate of Return	**6.836%**

Q. Please explain why the Stipulating Parties' agreement regarding NW Natural's Cost of Capital is reasonable.

A. The capital structure of 50 percent equity and 50 percent debt maintains the status quo, as this same capital structure was approved in its last rate case as well. Though they had differing positions, the Stipulating Parties analyzed the cost of long-term debt and accepted the Company's proposed cost of long-term debt of 4.271 percent. The ROE of 9.4 percent represents a compromise between the modeling performed by the Company's expert witness and the parties' expert witnesses, and results from discussions during the settlement process. This compromise falls within the range of reasonable ROEs and ROE

[147] Exhibit AWEC-CUB/102, Gorman/1.
[148] Stipulation at 6.

impacts analyzed by the Stipulating Parties and therefore is fully supported and appropriate.

IV. NON-REVENUE REQUIREMENT ISSUES

Q. Did the Stipulating Parties agree to settle any additional issues in this case?

A. Yes, the Stipulating Parties agreed to resolve rate spread and certain other issues, which are summarized below.

a) Rate Spread and Rate Design

Q. Please describe the Stipulating Parties' agreement regarding Rate Spread and Rate Design.

A. In the Initial Filing, NW Natural proposed to spread incremental revenue requirement such that costs will be more closely aligned to the indicated Long-Run Incremental Cost ("LRIC") study results across all rate classes, in a manner designed to move rate classes as a whole closer to parity based on their indicated cost causation, without causing rate shock.[149] To accomplish this goal, NW Natural proposed the following process for spreading the incremental revenue requirement. First, the Company proposed applying a cap of 17.3 percent margin increase to rate schedules with an LRIC study-indicated parity ratio below 1.0 at present rates, including Rate Schedule ("RS") 2 Residential, RS 3 Non-Residential (Commercial), and RS 27 Dry-Out, and retaining this cap for revenue allocation for these schedules.[150] Second, the Company proposed applying a floor of approximately 8.3 percent margin increase to the rate schedules in the Industrial and Transportation rate classes (this floor would be adjusted with the final step of this methodology).[151] Third, after applying the cap and floor just mentioned, the Company

[149] NW Natural/1400, Wyman/48-49.
[150] NW Natural/1400, Wyman/49.
[151] NW Natural/1400, Wyman/49-50.

proposed allocating the remaining revenue requirement to the Large Commercial Sales rate schedules only, on an equal percent of margin basis.[152] Fourth, the Company would adjust the floor such that the RS 31 and RS 32 rate classes, as well as the RS 3 Non-Residential (Industrial) schedule, would keep the same LRIC study-indicated parity ratios relative to each other (as a result, the floor would be roughly 0.44 times the overall incremental margin increase).[153] Finally, the Company would apply the lower floor and reallocate the remaining revenue requirement to the Large Commercial Sales rate schedules only on an equal percent of margin basis.[154]

In its Opening Testimony, Staff supported the Company's use of the LRIC as a baseline resource for rate spread proposals[155] and generally agreed with how the Company performed the study and the resulting finding that residential and small commercial customers are being subsidized by larger industrial and commercial customers.[156] However, Staff put forth a rate spread proposal that would increase residential rates more gradually to account for other upward residential rate pressure.[157] Staff's proposal would 1) apply a cap equal to 1.01 times the final overall incremental margin increase to RS 2 Residential and retain this cap for revenue allocation; 2) apply a cap equal to 1.05 times the final overall incremental margin increase to RS 3 Non-Residential (Commercial) and RS 27 Dry-Out and retain this cap for revenue allocation for these schedules; 3) apply a floor equal to 0.72 times the final overall incremental margin to the rate schedules in the Industrial and Transportation rate classes but 4) adjust the

[152] NW Natural/1400, Wyman/50.
[153] NW Natural/1400, Wyman/50.
[154] NW Natural/1400, Wyman/50.
[155] Staff/1300, Scala/35.
[156] Staff/1300, Scala/41.
[157] Staff/1300, Scala/42-43.

floor such that RS 3 Non-Residential (Industrial) and RS 32 Industrial Transportation Interruptible schedules equal to 0.84 times the overall incremental margin increase; and finally, 5) after all the caps and floors have been applied, allocate the remaining revenue requirement to the Large Commercial Sales rate schedules only, on an equal percent of margin basis.[158] In short, Staff adjusted the caps and floors in the Company's proposal to achieve a more gradual approach to parity and reduce the immediate rate impact to residential customers.[159] Staff also recommended "continued inquiry" into interruptible customers to determine whether cost allocation determinations over-estimate the effect of potential curtailments and into whether the Company should separate pricing for multi-family residential customers.[160]

CUB agreed with the Company's rate spread proposal, including its decision to not strictly adhere to the results of the LRIC study to avoid rate shock for residential and small commercial customers.[161]

SBUA validated the Company's methodology for determining rate spread[162] but recommended bifurcating NW Natural's RS 3 Non-Residential (Commercial) schedule into a sub-schedule for customers that use meters with a maximum flow-rate capacity less than 1,000 MBH,[163] and a sub-schedule for users with meters that have a maximum flow-rate capacity of 1,000 MBH or greater.[164] Per SBUA's proposal, the Company would perform a revised LRIC study and potentially update rates to reflect the results[165] to

[158] Staff/1300, Scala/44.
[159] Staff/1300, Scala/44.
[160] Staff/1300, Scala/48.
[161] CUB/200, Gehrke/41.
[162] SBUA/100, Kermode/7.
[163] MBH represents a flow rate of one thousand British Thermal Units (BTUs) per hour.
[164] SBUA/100, Kermode/13.
[165] SBUA/100, Kermode/14.

address what SBUA characterized as a cross subsidy from the smaller commercial customers to the large users for meter set and other capacity related costs.[166]

AWEC disagreed with the Company's rate spread proposal in its Initial Filing and instead recommended a rate spread based on a cap equal to 110 percent of the average margin rate and a floor set at 0 percent for industrial sales and transportation rate schedules, with any residual amounts applied to commercial rate schedules,[167] to more quickly address the differences in rate class parity values.[168] Additionally, AWEC recommended that the base rates used in the rate spread calculation include all supplemental schedules, including the Lexington RNG surcharge and any other deferrals the Commission approves.[169]

As a result of their settlement discussions, the Stipulating Parties have agreed to the rate spread and rate design as further detailed in Appendix B to the Stipulation.[170] Stipulating Parties agreed on the following process for spreading the incremental revenue requirement: (a) Use ceiling of 1.055 times the overall average margin revenue increase[171] for the RS 2 Residential and RS 3 Non-Residential (Commercial) schedules; (b) equalize the base rate revenue increase on a percentage basis between the RS 2 Residential and RS 3 Non-Residential (Commercial) schedules; (c) use a ceiling of 1.178 times the overall average margin revenue increase for RS 27R Dry-Out; (d) apply a floor of 0.800 times the overall average margin revenue increase for all schedules in the commercial rate class as well as all sub-schedules of Tariff Schedule 31; (e) adjust the

[166] SBUA/100, Kermode/11.
[167] AWEC/100, Mullins/51.
[168] AWEC/100, Mullins/50.
[169] AWEC/100, Mullins/51.
[170] Stipulation at 7.
[171] The overall average margin revenue increase is equal to 14.1 percent.

floor applicable to the remaining rate schedules such that the remaining incremental revenue requirement is applied. The final step results in a floor of 0.196 times the overall average margin revenue increase applied to the remaining rate schedules. An illustrative table detailing the results of the agreed rate spread is provided in Appendix B to the Stipulation.

Q. Please explain why the Stipulating Parties' agreement regarding rate spread and rate design is reasonable.

A. The Stipulating Parties agree that the rate spread and rate design in Appendix B resulted from the Stipulating Parties thoughtfully considering the issues they each raised and reflects compromises and adjustments made to reach a rate design and rate spread that provides just and reasonable rates for all rate schedules.

b) Attestation for Capital Projects

Q. Please describe the Stipulating Parties' agreement regarding attestation for capital projects.

A. Staff expressed concerns about certain capital projects that are not yet complete, but are scheduled to be completed prior to the November 1, 2022, rate effective date.[172] To address this uncertainty, Staff requested that NW Natural file an officer attestation for certain named projects with a cumulative value of approximately $9 million.[173] Staff also recommended a rate true up mechanism for certain large information technology projects, though this mechanism would only apply to the named information technology projects.[174]

As a result of their settlement discussions, the Stipulating Parties included as Appendix C to the Stipulation an agreed-upon list of capital projects that were not

[172] Staff/300, Fox/38-43.
[173] Staff/300, Fox/42-43.
[174] Staff/300, Fox/43; Staff/200, Fjeldheim/14, 17-18.

completed as of the date the Stipulation was executed, but which NW Natural anticipated would be completed and in service by October 31, 2022.[175] For the projects related to TSA Security Directive 2, on or before June 15, 2022, NW Natural will prepare a separate list of each project ("TSA Project List") as well as the forecasted final cost of each project that will be shared with parties that are qualified to view the materials pursuant to the Modified Protective Order in this docket, Order No. 21-465.[176] For any Appendix C projects or projects on the TSA Project List that are complete and in service by October 5, NW Natural will file an attestation of a Company officer by October 5, 2022 (the "October 5 Officer Attestation"), attesting that these projects are complete and in-service and identifying which, if any, of the remaining projects the Company does not anticipate having on-line by October 31, 2022.[177] The Stipulating Parties further agree that the Company will file a separate attestation of a Company officer by October 24, 2022 (the "October 24 Officer Attestation"), listing which of the remaining Appendix C or projects on the TSA Project List projects are completed as of October 24 and attesting that these projects are complete and in-service.[178] The Company will also identify in the October 24 Officer Attestation which remaining incomplete Appendix C or TSA Project List projects it anticipates completing and placing in service by October 31, 2022, and which projects the Company anticipates it will not complete and place in service by October 31, 2022.[179] Additionally, the Stipulating Parties agree that the Company will include the forecasted final project cost for each project in Appendix C and the TSA Project List, that the Company's October 5 and October 24 Officer Attestations will specify the actual costs for

[175] Stipulation at 7.
[176] Stipulation at 8.
[177] Stipulation at 7.
[178] *Id*.
[179] Stipulation at 7-8.

each project complete and in-service by that date, and that the amounts added to rate base for each project in this rate case will be the lesser of the final actual cost in the October 5 or October 24 Officer Attestation or the forecasted amount included in Appendix C to the Stipulation or the TSA Project List, as applicable.[180]

The Stipulating Parties further agree that the Company will remove from rate base the costs of projects included in Appendix C to the Stipulation or the TSA Project List that are not completed and placed in service by October 31, 2022 ("Excluded Projects") for purposes of calculating the rates pursuant to the Stipulation and will adjust rates accordingly.[181] Furthermore, in the event that the Company includes an Excluded Project in rates, the Company will file a supplemental compliance tariff on November 1, 2022, that reverses any charge to ratepayers for the cost of service associated with the Excluded Project.[182] Any revenue requirement reductions to rate base related to plant not in service by November 1, 2022, will be allocated to all rate schedules on an equal percent of margin basis.[183]

Q. Please explain why the Stipulating Parties' agreement regarding attestations is reasonable.

A. The Stipulating Parties agree that the agreement regarding attestations will facilitate review of final projects costs and ensure that only projects completed by the October 31, 2022 cut-off date will be included in rates. The Stipulating Parties agree that this approach reflects a reasonable compromise between the Stipulating Parties' positions.

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[180] Stipulation at 8.
[181] Stipulation at 8-9.
[182] Stipulation at 9.
[183] Stipulation at 9.

c) Depreciation Rates

Q. Please describe the Stipulating Parties' agreement regarding depreciation rates.

A. In its Initial Filing, the Company used the depreciation rates that were authorized by the Commission in 2018 and acknowledged that, contemporaneous with this rate case, it filed with the Commission an updated depreciation study that indicates the Company must increase its depreciation rates, which will in turn increase the Company's depreciation expense by approximately $7.5 million based on plant balances as of December 31, 2020.[184] To help alleviate this upward pressure on customer rates, the Company asked the Commission to delay the effective date of the Company's updated depreciation expense until November 1, 2023.[185]

In Opening Testimony, Staff did not take a position on NW Natural's decision to exclude the changes in revenue requirement associated with the updated depreciation rates but opposed the Company's proposal to delay the effective date of its updated depreciation rates to November 2023.[186] Staff did not propose any adjustments to depreciation expenses and reserves because the Company appropriately used the depreciation rates that were authorized in Order No. 18-007 and the depreciation and reserves in the Company's revenue requirement are properly recorded.[187]

As a result of their settlement discussions, the Stipulating Parties have agreed to adjust the Company's depreciation rates subject to the resolution of the Company's depreciation study in Docket UM 2214.[188] The Company will include in its October 24 Officer Attestation (described earlier in this testimony) the change to depreciation rates

[184] NW Natural/100, Anderson-Kravitz/22.
[185] NW Natural/100, Anderson-Kravitz/22.
[186] Staff/1100, Peng/3.
[187] Staff/100, Peng/3-4.
[188] Stipulation at 9.

and will adjust its revenue requirement accordingly.[189] The Company will allocate any change to revenue requirement to all rate schedules on an equal percent of margin basis.[190]

Q. Please explain why the Stipulating Parties' agreement regarding depreciation expense is reasonable.

A. The Stipulating Parties agree that the agreement regarding depreciation expense is reasonable because it provides an approach to reflect the results of the Company's updated depreciation study and, in the context of the overall Stipulation, results in just and reasonable rates.

d) Horizon 1 Depreciation Rates

Q. Please describe the Stipulating Parties' agreement regarding Horizon 1 depreciation rates.

A. NW Natural filed with the Commission an application for an accounting order authorizing it to use a ten-year amortization period for its capitalized cloud-based software license and implementation costs that reflect the useful life of the first phase of the Company's Horizon Program ("Horizon 1"), in which it is replacing its Enterprise Resource Planning ("ERP") system (Docket UM 2215). In its Initial Filing, the Company explained that its proposed revenue requirement reflected the ten-year life of Horizon 1 and that it was proposing a ten-year depreciation schedule to reflect the useful life of Horizon 1.[191] NW Natural's proposal to increase the duration of the depreciation schedule reduced revenue requirement by \$2.1 million.[192]

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[189] *Id.*
[190] *Id.*
[191] NW Natural/1300, Walker/33.
[192] NW Natural/1300, Walker/33.

In Opening Testimony, Staff expressed its concern that customers would pay more for Horizon 1 by depreciating and amortizing the project over 10 years versus five, and therefore recommended a five-year depreciation schedule.[193] Staff's proposal increased the Company's proposed annual depreciation expense by $2.468 million.[194]

As a result of their settlement discussions, the Stipulating Parties recommend the Commission approve NW Natural's requested accounting order to authorize the Company to amortize its Horizon 1 cloud-based assets over a ten-year life in Docket UM 2215.[195] Further, the Stipulating Parties agree that, in the event that Horizon 1 is removed from service prior to the end of the ten-year life, the Company will apply the modified blended treasury ("MBT") rate to the remaining balance of the asset and defer the difference between the Company's cost of capital and the MBT rate until such time that general rates are changed in a subsequent rate case or at the end of Horizon's ten-year life, whichever comes earlier.[196]

Q. Please explain why the Stipulating Parties' agreement regarding Horizon 1 depreciation rates is reasonable.

A. The recommendation to approve NW Natural's requested accounting treatment for Horizon 1 reasonably accommodates the Stipulating Parties' concerns about the depreciation schedule for this cloud-based asset and in the context of the overall Stipulation results in a fair outcome.

[193] Staff/200, Fjeldheim/11-12.
[194] Staff/200, Fjeldheim/12.
[195] Stipulation at 9.
[196] Stipulation at 9-10.

e) Horizon 1 Start-Up Cost Deferral

Q. Please describe the Stipulating Parties' agreement regarding the Horizon 1 Start-Up Cost Deferral.

A. The Company filed an application seeking Commission authorization to defer for later ratemaking treatment O&M start-up costs associated with developing and implementing Horizon 1 (Docket UM 2132, the "Horizon 1 Start-Up Cost Deferral"), which authorization the Commission granted, subject to certain conditions, in Order No. 21-246. In its Initial Filing, the Company sought Commission authorization to amortize the accrued amounts associated with the Horizon 1 Start-Up Cost Deferral in base rates over a 10-year period beginning November 1, 2022, on an equal percent of margin basis to all customers, after allocation of the revenue requirement in UG 435.[197] Staff did not make any recommendations regarding the Horizon 1 Start-Up Cost Deferral,[198] but AWEC argued it was not reasonable to consider the Horizon 1 Start-Up Cost Deferral in this proceeding because the final amount of the deferral remains unknown and because the Company has not filed its 2021 earnings report.[199]

The Stipulating Parties agree that NW Natural will amortize its Horizon 1 Start-Up Cost Deferral over 10 years beginning November 1, 2022, subject to the terms of the stipulation approved in Order No. 21-246.[200] NW Natural will include in its Officer Attestation a demonstration of compliance with the terms of the stipulation approved in Order No. 21-246 and will include a final amortization schedule for the deferral therein.[201]

The Stipulating Parties agree that the Horizon 1 Start-Up Cost Deferral

[197] NW Natural/1300, Walker/32.
[198] Staff/1400, Storm/10-11.
[199] AWEC/100, Mullins/46.
[200] Stipulation at 10.
[201] Stipulation at 10.

amortization will be spread by applying the same proportionate increase to all rate schedules as the revenue requirement base rate increase.

Q. Please explain why the Stipulating Parties' agreement regarding Horizon 1 Start-Up Cost Deferral is reasonable.

A. The Stipulating Parties agree that approving NW Natural's request to amortize its deferred Horizon 1 Start-Up Costs is reasonable in the context of the overall Stipulation, which resulted from a process in which the parties all made and received significant concessions.

f) TSA Security Directive Deferral

Q. Please describe the Stipulating Parties' agreement regarding the TSA Security Directive Deferral.

A. NW Natural filed an application seeking Commission authorization to defer for later ratemaking treatment the costs it incurred to comply with certain requirements from the Department of Homeland Security's Transportation Security Administration ("TSA") Security Directive Pipeline-2021-02 (Docket, UM 2192, the "TSA Security Directive Deferral"). In its Initial Filing, the Company proposed amortizing these costs in a base rate adjustment over a two-year period to all customers on an equal percent of margin basis plus interest using the MBT rate.[202] The Company proposed amortizing the costs on a separate adjustment schedule and bringing the start-up O&M costs forward for amortization in an upcoming Purchased Gas Adjustment.[203]

Staff did not make any recommendations regarding the TSA Security Directive Deferral,[204] but AWEC recommended that the Commission decline to approve the Company's TSA Security Directive 2 Deferral because AWEC concluded that most of the

[202] NW Natural/1300, Walker/34.
[203] NW Natural/1300, Walker/34.
[204] Staff/1400, Storm/10-11.

funds the Company will spend to comply will be capital funds, which have not been placed into service, and that the O&M costs are "immaterial."[205]

As a result of their settlement discussions, the Stipulating Parties recommend the Commission approve NW Natural's TSA Security Directive 2 Deferral and allow NW Natural to amortize the balance of the TSA Security Directive 2 Deferral over four years at the MBT rate beginning November 1, 2022.[206] NW Natural will include in its Officer Attestation the balance of the deferral by October 31, 2022.[207] In the event that the amount of the actual balance of the deferral is less than the amount proposed in the Initial Filing, NW Natural will remove the excess amount from rates.[208] The Stipulating Parties agree that these are temporary rates that NW Natural will not include in base rates.[209]

The Stipulating Parties agree that the TSA Security Directive 2 Deferral amortization will be spread by applying the same proportionate increase to all rate schedules as the revenue requirement base rate increase.

Q. Please explain why the Stipulating Parties' agreement regarding the TSA Security Directive Deferral is reasonable.

A. The Stipulating Parties recognize that NW Natural is obligated by federal regulations to comply with the TSA's security directive and determined that allowing NW Natural to defer and amortize certain related costs was reasonable in the context of the overall Stipulation.

g) Williams Pipeline Outage Deferral

Q. Please describe the Stipulating Parties' agreement regarding the Williams Pipeline Outage Deferral.

[205] AWEC/100, Mullins/47.
[206] Stipulation at 10.
[207] *Id*.
[208] *Id*.
[209] *Id*.

A. The Company filed an application with the Commission seeking authorization to use deferred accounting for amounts associated with addressing damage, keeping customers safe, restoring service, and relighting customers' homes due to a motor vehicle accident that damaged a Williams NW Pipeline district regulator, causing the regulator to be shut down and approximately 5,500 customers in Hood River, Oregon and White Salmon, Washington to lose natural gas service (Docket UM 2139, "the Williams Pipeline Outage Deferral"). In its Initial Filing, the Company proposed recovery of $652 thousand from Oregon customers, inclusive of interest, and to amortize this amount over a one-year temporary rate through a separate adjustment schedule, starting November 1, 2022, on an equal percent of margin basis to all customers after the revenue requirement has been allocated in this case.[210]

In its Opening Testimony, Staff recommended that the Commission deny NW Natural's Williams Pipeline Outage Deferral request and, if the Commission instead approved the request, delay addressing the amortization of the deferral until after the Company's related insurance claim has been resolved.[211] CUB similarly testified that the Company's proposal for cost recovery is premature and that the Company should withdraw its request until its insurance claims have been finalized.[212] AWEC also recommended that the deferral be rejected, arguing that the costs were not material enough to warrant deferral.[213]

The Stipulating Parties agree that NW Natural will remove its request in this case to begin amortization of the Williams Pipeline Outage Deferral.[214]

[210] NW Natural/1300, Walker/31.
[211] Staff/800, Enright/15-16.
[212] CUB/200, Gehrke/32.
[213] AWEC/100, Mullins/44-45.
[214] Stipulation at 10.

Q. Please explain why the Stipulating Parties' agreement regarding the Williams Pipeline Outage Deferral is reasonable.

A. The Stipulating Parties agree that removing the Company's request to begin amortizing deferred costs it incurred related to the Williams Pipeline outage addresses the concerns of some of the Stipulating Parties and is reasonable considering the Stipulation in its entirety.

h) Update Billing Determinants for Amortization of Environmental Remediation (Schedule 183) and Pension Balancing Account (Schedule 197).

Q. Please describe the Stipulating Parties' agreement regarding updating the billing determinants for amortization of environmental remediation (Schedule 183) and pension balancing account (Schedule 197).

A. NW Natural's Tariff Rate Schedule 183 – Rate Adjustment for Environmental Cost Recovery was implemented in 2015 and, based upon the recovery mechanism approved by the Commission in Order No. 15-049, enables NW Natural to recover $5,000,000 in environmental costs per year. NW Natural's Tariff Rate Schedule 197 – Amortization of Pension Balancing account enables the Company to an annual amount of $7,100,000 from customers over a ten-year period commencing April 1, 2019. In its Initial Filing, the Company did not propose updating the rates for either schedule. AWEC recommended that the Schedule 183 and 197 rates be adjusted on a going-forward basis and that the Company refund customers for amounts AWEC asserted represented overcollection.[215]

As a result of their settlement discussions, the Stipulating Parties agree that no changes to the revenue requirement are necessary, but that NW Natural will update the billing determinants associated with the amortization of the Site Remediation Recovery

[215] AWEC/100, Mullins/26-28.

Mechanism (also referred to as Environmental Remediation) in Schedule 183 and the Pension Balancing Account in Schedule 197.[216]

Q. Please explain why the Stipulating Parties' agreement regarding Updating Billing Determinants for Amortization of Environmental Remediation (Schedule 183) and Pension Balancing Account (Schedule 197) is reasonable.

A. The Stipulating Parties agree that in the context of the overall Stipulation it is reasonable for NW Natural to update the billing determinants for Schedule 183 and Schedule 197.

i) Update to Tariff Rule 11

Q. Please describe the Stipulating Parties' agreement regarding an update to Tariff Rule 11.

A. In the Initial Filing, SBUA recommended that the Commission eliminate the reconnection charges NW Natural imposes on RS 3 Non-Residential (Commercial) customers or, in the alternative, that NW natural modify its Tariff Rule 11 – Disconnection and Reconnection of Service, to provide notice of disconnection of service to RS 3 Non-Residential (Commercial) customers.[217]

The Stipulation reflects the Stipulating Parties' agreement that NW Natural will revise Rule 11 of its Oregon Tariff to include RS 3 Non-Residential (Commercial) customers with the same notice provisions as are offered to residential customers in the section titled "Notice of Disconnection of Service."[218]

Q. Please explain why the Stipulating Parties' agreement regarding an update to Tariff Rule 11 is reasonable.

[216] Stipulation at 10-11.
[217] SBUA/100, Kermode, 27.
[218] Stipulation at 1.

A. The Stipulating Parties agree that updating Rule 11 to provide this notice to RS 3 Non-Residential (Commercial) customers is reasonable in the context of the overall Stipulation.

j) Cost Study Analysis of Rate Schedule 3 Non-Residential (Commercial)

Q. Please describe the Stipulating Parties' agreement regarding a cost study analysis of Tariff Rate Schedule 3 Non-Residential (Commercial).

A. In Opening Testimony, SBUA recommended that the Commission direct the Company to prepare a revised LRIC that separates the "Rate Schedule 3 'small commercial'" (RS 3 Non-Residential Commercial) into two distinct sub-rate schedules, with one schedule for customers that use meters with a maximum flow-rate capacity less than 1,000 MBH, and one schedule for users with meters that have a maximum flow-rate capacity of 1,000 MBH or greater.[219] SBUA made this request based on what it views as "intraclass subsidy from small business to large users"[220] due to the costs generated by the latter, who make up a smaller portion of the rate class.[221]

The Stipulating Parties agree that the Company will develop a cost study analysis examining whether to bifurcate the RS 3 Non-Residential (Commercial) schedule and present its findings to the Stipulating Parties prior to the Company's next general rate case.[222] The Company agrees to address whether to bifurcate the RS 3 Non-Residential (Commercial) schedule in its opening testimony in its next general rate case and will consult with SBUA prior to conducting the cost study.[223]

Q. Please explain why the Stipulating Parties' agreement regarding a cost study analysis of Tariff Rate Schedule 3 Non-Residential (Commercial) is reasonable.

[219] SBUA/100, Kermode/13.
[220] SBUA/100, Kermode/12.
[221] SBUA/100, Kermode/13.
[222] Stipulation at 11.
[223] *Id*.

A. The Stipulating Parties agreed that conducting the cost study analysis of Tariff Rate Schedule 3 Non-Residential (Commercial) reflects a reasonable compromise in the context of the overall Stipulation.

k) Customer Charge for Multi-Family vs. Single-Family Dwellings

Q. Please describe the Stipulating Parties' agreement regarding the customer charge for multi-family vs. single-family dwellings.

A. In its Opening Testimony, Staff expressed a desire to explore whether the Company should provide separate pricing for multi-family residential customers to account for differences in the cost of service between multi-family residential customers and other residential customers, an issue that was addressed in the rate cases of two regional electric utilities.[224] Specifically, Staff would like to understand whether the fixed costs for multi-family dwellings vary significantly enough relative to single-family dwellings to pursue modification.[225]

As a result of their settlement discussions, the Stipulating Parties agree that NW Natural will host a workshop with the Stipulating Parties relating to the difference in fixed cost for multi-family vs. single-family dwellings.[226] In advance of the workshop, the Company will confer with the Stipulating Parties regarding the scope of the workshop.[227]

Q. Please explain why the Stipulating Parties' agreement regarding the customer charge for multi-family vs. single-family dwellings is reasonable.

A. The Stipulating Parties agree that the approach agreed to in the Stipulation—to convene a workshop to consider the difference in fixed cost for multi-family vs. single-family

[224] Staff/1300, Scala/48.
[225] Staff/1300, Scala/49.
[226] Stipulation at 11.
[227] *Id*.

dwellings—is an appropriate resolution of this issue and will provide useful data to determine whether any changes should be made in a future proceeding.

l) Tariffs

Q. Please describe the Stipulating Parties' agreement regarding NW Natural's tariff filings to revise its rate schedules.

A. Subject to the approval of the Stipulation, the Stipulating Parties agree that NW Natural will file revised rate schedules as a compliance filing in consolidated dockets UG 435 and 411, to be effective November 1, 2022, reflected rates as agreed to in the Stipulation.[228]

m) Issues Excluded from the Stipulation

Q. Please describe the Stipulating Parties' agreement regarding issues that are explicitly excluded from the Stipulation.

A. The Stipulating Parties agree that the following issues raised by the Stipulating Parties are not addressed by the Stipulation and will continue to be litigated in these consolidated cases or, pending additional settlement discussions, may be incorporated into a separate stipulated agreement entered into at a later date.

i) Residential Customer Deposits (CUB/100);
ii) Line Extension Allowance (CUB/100);[229]
iii) Decoupling (Staff/1300);
iv) RNG Automatic Adjustment Clause (NWN/1500; Staff/1700; AWEC/100; CUB/200);
v) Cost Recovery and Rate Spread of the Lexington RNG Project and Deferral (NWN/1100; CUB/200; Staff/1700; AWEC/100); and
vi) COVID-19 Deferral Amortization and Rate Spread (Staff/1500; CUB/200).[230]

[228] Stipulation at 11.
[229] Resolution of this issue could affect total rate base as described in Paragraph 1.q. of the Stipulation.
[230] Stipulation at 12.

V. SUPPORT FOR THE STIPULATION

Q. What is the basis for the Stipulation?

A. The Stipulation is a compromise based on the record in this case, which includes NW Natural's Initial Filing, and the Opening Testimony of Staff, CUB, AWEC, and SBUA. Over the course of the settlement discussions, the Stipulating Parties resolved all of their differences regarding all of the issues in the Stipulation—except for those explicitly excluded in Paragraph 14 of the Stipulation—and ultimately resolved in the Stipulation, through dialogue, negotiations, and compromise to reach a fair result.

Q. What is your recommendation to the Commission regarding the Stipulation?

A. The Stipulating Parties recommend and request that the Commission approve the Stipulation in its entirety.

Q. Please explain why the Stipulating Parties believe that the Commission should adopt the Stipulation?

A. The Stipulating Parties have carefully reviewed NW Natural's Initial Filing, NW Natural's responses to data requests, and have thoroughly analyzed the issues during multiple days of settlement conferences. The Stipulating Parties believe that the adjustments and agreements in the Stipulation provide a fair and reasonable resolution of the issues in these consolidated dockets and the resulting rates are fair, just and reasonable.

a) NW Natural

Q. Mr. Kravitz, please explain why NW Natural supports the Stipulation.

A. NW Natural believes that each adjustment to its Initial Filing is supported by evidence in the record and is not contrary to Commission policy. As such the Stipulation represents a reasonable compromise of each of the issues contained within the Stipulation, other than those explicitly excluded in Paragraph 14 of the Stipulation. The Company also values the positive regulatory relationships furthered by the settlement and appreciates the opportunity to narrow the issues being litigated in this case, which will reduce the costs and risk associated with litigation. Most importantly, NW Natural believes that overall, the rates produced by the Stipulation are fair, just, and reasonable.

Q. Does NW Natural agree with all of the arguments raised by the Stipulating Parties that gave rise to the modified revenue requirement in the Stipulation?

A. No, but the Company supports the Stipulation as a whole and values and appreciates the time, effort, and thoughtfulness of each of the Stipulating Parties in reaching agreement on the terms of the Stipulation.

Q. Why does NW Natural believe the Stipulation results in a reasonable compromise regarding the revenue requirement?

A. Fundamentally, NW Natural is seeking to recover the costs of investments it made on behalf of its customers to continue to provide safe and reliable energy to their homes and businesses, while balancing the impacts of these costs to customers. While the Stipulation reduces the Company's requested revenue requirement by $15.366 million, NW Natural believes that the lowered revenue requirement will not diminish the financial health of the utility.

The Stipulation allows the Company to recover the costs associated with these key investments. For example, the resource center projects in the coastal region allowed the Company to move critical facilities into seismically strengthened buildings—and for the Warrenton Resource Center, out of the tsunami inundation zone—from which the Company can provide key services in those areas, both during normal times and emergencies, when our customers need our services the most. Similarly, the Horizon

Project is replacing the Company's near end-of-life and end-of-support enterprise resource platform. The new platform is a secure, vendor-supported critical piece of IT infrastructure on which the Company relies to run its business and provide service to customers. Likewise, the Company's cybersecurity enhancements enable us to better monitor, respond to, and get out in front of threats—such as malware and ransomware—that are increasingly prevalent across the energy industry. Our infrastructure upgrades help reinforce our system to ensure it runs safely and reliably. While we recognize that there is rarely a good time to seek an increase to rates for our customers, the Stipulation reflects a reasonable increase to rates that is based on years of planning for prudent investments that will be completed and benefit customers by the time our customers experience a rate change in November.

Q. Did NW Natural also provide Reply Testimony on certain subjects addressed in the Stipulation?

A. Yes. Because the Coalition did not join the Stipulation, NW Natural provided Reply Testimony responding to certain issues that the Coalition raised in its Opening Testimony that are addressed in the Stipulation—in particular, addressing expenses associated with advertising, membership and dues, and government affairs. Please see additional discussion regarding expense for membership and dues and for government affairs in the Reply Testimony of Kimberly Heiting and Ryan Bracken (NW Natural/1700, Heiting-Bracken) and additional discussion regarding advertising expense in the Reply Testimony of Cory Beck (NW Natural/1900, Beck). To be clear, although the Company provided Reply Testimony responding to the Coalition on these issues, the Company is supporting the resolution on these issues described in the Stipulation and in this Joint Testimony.

Q. What is your recommendation to the Commission?

A. I recommend that the Commission find that the terms of the Stipulation are consistent with the public interest, and that the Commission approve the Stipulation.

b) OPUC Staff

Q. Mr. Fjeldheim, please explain why Staff supports the Stipulation.

A. Staff supports the Stipulation as a reasonable resolution of the issues presented by NW Natural's general rate case filing. Staff's initial proposed adjustments to the Company's proposed Test Year were based on the policies Staff implemented in previous rate cases and believes none of the agreed-to changes are inconsistent with those policies. Importantly, the Stipulation limits the assets on which the Company may earn a return to those that will be used and useful upon the rate effective date. Staff also believes the Stipulation strikes a balance between giving the Company an opportunity to recover its costs necessary to provide services and the necessity of keeping rates as low as possible for customers, especially during the continuing economic recovery from the COVID-19 pandemic and significant inflationary pressures experienced by households and businesses. Accordingly, Staff believes the Stipulation results in rates that are fair, just and reasonable.

Q. Mr. Gehrke, please explain why CUB supports the Stipulation.

A. As the residential customer advocate for Oregon natural gas customers, CUB was concerned with the size of this rate increase for residential customers of NW Natural. The stipulation addresses CUB's positions in testimony. This joint Stipulation establishes a rate spread that is similar to NW Natural's opening position for residential customers. This Stipulation also significantly reduces NW Natural's advertising budget and labor budget, consistent with positions taken in CUB's testimony. CUB believes the overall revenue requirement figure reached in the Stipulation is reasonable for both the Company and its customers. CUB believes that the issues contained in the Stipulation represent a reasonable resolution of the issues in this case and will result in rates that are fair, just, and reasonable. As such, CUB believes the Stipulation is in the public interest and urges the Commission to adopt its terms.

c) AWEC

Q. Mr. Mullins, please explain why AWEC supports the Stipulation.

A. AWEC supports the Stipulation as a reasonable compromise of Cost of Capital, revenue requirement and rate spread and design issues that were presented in NW Natural's Initial Filing and the Parties' Opening Testimony. Even though I proposed other adjustments in my Opening Testimony that are not reflected in the Stipulation, the overall level of increase is reasonable. While the revenue requirement still represents a material increase to customer rates, the parties agreed to a rate spread that fairly allocates costs, reflects the results of the LRIC Study, and reduces the allocation of revenues to large customer classes, which are paying rates far exceeding their cost of service. As AWEC noted in its Opening Testimony, many large volume rate schedules are paying rates that are nearly double their cost of service, and therefore, it would need to have those customers' rates reduced by approximately 50 percent to get close to parity. To be clear, the increase allocated to large customers will not necessarily move large volume customers closer to parity, but the rate spread adopted in the Stipulation will not result in moving those customers further from parity to the degree proposed in NW Natural's Initial Filing. AWEC recommends the Commission find that the Stipulation results in rates that are fair, just and reasonable and approve it.

d) SBUA

Q. Mr. Kermode, please explain why SBUA supports the Stipulation

A. SBUA supports this Stipulation recognizing that it provides a reasonable compromise between the parties that results in a revenue requirement that is overall, fair and reasonable. We note that not only does the settlement result in a $15.366 million reduction of the Company's filed revenue requirement, but for small business owners served by NW Natural, it provides additional protections from service disconnections that are currently limited to residential customers.

Significantly, SBUA supports the adoption of the stipulation because of its recognition of the importance to small business of a cost-of-service analysis which will examine if there is an undue upward cross-subsidization imbedded in rate schedule CR 3, the "small business tariff," and if a bifurcation of the tariff is warranted. This is important not only in this case, but may affect future filings impacting the small business community.

Finally, the Stipulation removes, to a large extent, the uncertainty for small business of the future impact increased natural gas rates will have on their costs of operations, especially those businesses hard-hit by the economic downturn caused by the pandemic. SBUA supports the Settlement believing it provides small business with rates and tariffs that are fair, just, and reasonable.

Q. Does this conclude your testimony?

A. Yes.