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**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 Second Partial Stipulation.

Please contact this office with any questions.

Sincerely,

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 Second Partial 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 The Coalition of Communities of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon Environmental Council, Community Energy Project, and Sierra Club

**NW NATURAL-STAFF-CUB-AWEC-COALITION EXHIBIT 100**

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

July 7, 2022

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**I. INTRODUCTION AND SUMMARY**

**Q. Who is sponsoring this testimony?**

A. This testimony is sponsored jointly by Northwest Natural Gas Company d/b/a NW Natural (“NW Natural” or “Company”), Staff of the Public Utility Commission of Oregon (“Staff”), the Oregon Citizens’ Utility Board (“CUB”), the Alliance of Western Energy Consumers (“AWEC”), and the Coalition of Communities of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon Environmental Council, Community Energy Project, and Sierra Club (“Coalition”), (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 Robert Wyman, and my current position is Rates and Regulatory Consultant for NW Natural. My qualifications are provided in Exhibit NW Natural/1400.

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 Michelle Scala. I am a Senior Utility Analyst employed in the Strategy and Integration Division of the Public Utility Commission of Oregon (“Commission”). My qualifications are provided in Exhibit Staff/1301.

My name is Bob Jenks, and I am the Executive Director of CUB. My qualifications are provided in Exhibit CUB/101.

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

1 commissions in the Northwest and Intermountain West. I am testifying on behalf of AWEC,  
2 and my qualifications are set forth in Exhibit AWEC/101.

3 My name is Charity Fain. I am the Executive Director of Community Energy  
4 Project. I am testifying on behalf of the Coalition, and my qualifications are set forth in  
5 Exhibit Coalition/301.

6 **Q. What is the purpose of this Joint Testimony?**

7 A. This Joint Testimony describes and supports the Second Partial Stipulation (“Second  
8 Stipulation”) filed in this docket on June 29, 2022. The Second Stipulation resolves certain  
9 issues among the Stipulating Parties, including decoupling, residential customer deposits,  
10 the Oregon Low Income Energy Efficiency Program (“OLIEE”), and NW Natural’s COVID-  
11 19 deferral.

12 **Q. Does the Second Stipulation resolve all remaining issues among the Stipulating**  
13 **Parties?**

14 A. No. The Stipulating Parties agree that the issues that are listed in Paragraph 5 of the  
15 Second Stipulation will continue to be litigated in these consolidated cases or, pending  
16 additional settlement discussions, may be incorporated into a separate stipulated  
17 agreement entered into at a later date.

18 **Q. Did all parties to these consolidated cases join the Second Stipulation?**

19 A. No. While the Small Business Utilities Advocates (“SBUA”) participated in the settlement  
20 discussions, SBUA does not join the Second Stipulation.

21 **II. BACKGROUND**

22 **Q. Please summarize the background of consolidated Dockets UG 411 and 435.**

23 A. On December 4, 2020, NW Natural filed Advice No. 20-19 to add Schedule 198,  
24 Renewable Natural Gas Recovery Mechanism, to the Company’s tariff to recover the  
25 revenue requirement associated with prudently incurred qualified investments in

1 renewable natural gas (“RNG”) to meet the targets in ORS 757.396.

2 On December 17, 2021, the Company filed a request for a general rate increase  
3 (the “Initial Filing”) to become effective November 1, 2022 (the “Rate Effective Date”). The  
4 Company’s Initial Filing requested a revision to customer rates that would increase the  
5 Company’s annual Oregon jurisdictional revenues by \$73.5 million, which would have  
6 resulted in an approximate 9.9 percent increase to current customer rates, or a margin  
7 rate increase of 16.5 percent.<sup>1</sup> Administrative Law Judge (“ALJ”) Sarah Spruce convened  
8 a prehearing conference on January 19, 2022. On February 28, 2022, NW Natural made  
9 an errata filing increasing the revenue requirement to \$78.020 million (the “Errata Filing”),  
10 which would result in an approximate 10.56 percent increase to revenues collected from  
11 customers’ base rates, or a 17.5 percent margin rate increase.<sup>2</sup>

12 On January 25, 2022, ALJ Spruce issued a Procedural Conference Memorandum  
13 setting forth the UG 435 schedule and consolidating UG 411 with UG 435. On January  
14 26, 2022, ALJ Spruce issued an Amended Procedural Conference Memorandum. On  
15 February 18, 2022, the Company filed its Opening Testimony on Schedule 198,  
16 Renewable Natural Gas Recovery Mechanism, in compliance with that Amended  
17 Procedural Conference Memorandum.

18 **Q. Please summarize the settlement discussions that have occurred in these**  
19 **consolidated proceedings.**

20 A. On January 21, 2022, the parties to the case at that time (NW Natural, Staff, CUB, and  
21 AWEC) held a settlement conference regarding cost of capital, and on February 4, 2022,  
22 the same parties held a workshop addressing TSA Security Directive 2. Staff and  
23 intervenors filed their Opening Testimony on April 22, and thereafter all parties participated

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<sup>1</sup> Initial Filing, NW Natural’s Executive Summary at 1 (Dec. 17, 2021).

<sup>2</sup> ERRATA NW Natural/100, Anderson-Kravitz/17.

1 in settlement conferences on May 4, 2022, May 11, 2022, May 17, 2022, and May 20,  
2 2022. As a result of these settlement discussions, all parties, excluding the Coalition,  
3 reached a partial settlement of the issues in these consolidated cases and filed the First  
4 Stipulation on May 31, 2022, followed by Joint Testimony in support of the First Stipulation  
5 on June 8, 2022.

6 **Q. What items were included in the First Stipulation?**

7 A. The parties to the First Stipulation—NW Natural, Staff, CUB, AWEC, and SBUA—agreed  
8 to the Company’s revenue requirement, cost of capital, rate spread and design, an  
9 attestation process for capital projects, implementation of depreciation rates pending  
10 resolution of docket UM 2214, Horizon 1 depreciation, amortization of the TSA Security  
11 Directive 2 deferral, removing the request to begin amortizing the deferral of the Williams  
12 Pipeline Outage, an update to the billing determinants for the Company’s Tariff Rate  
13 Schedules 183 and 197, an update to the Company’s Tariff Rule 11, a cost study analysis  
14 of Tariff Rate Schedule 3 Non-Residential (Commercial), and a workshop relating to the  
15 difference in fixed costs for residential multi-family vs. residential single-family dwellings,  
16 and, finally, the related tariff updates for these agreed upon items.

17 **Q. Have the parties engaged in settlement discussions since the First Stipulation was**  
18 **filed?**

19 A. Yes. After the Company filed its Reply Testimony on June 6, 2022, all parties participated  
20 in settlement conferences, which were held on June 15, 2022, and June 16, 2022. The  
21 Second Stipulation memorializes the Stipulating Parties’ agreements from their most  
22 recent settlement discussions.

23 **Q. Please provide an overview of the Second Stipulation.**

24 A. The Second Stipulation resolves certain issues among the Stipulating Parties, including  
25 the Company’s decoupling mechanism, residential customer deposits, the OLIEE

1 Program, and NW Natural's COVID-19 deferral costs. First, the Stipulating Parties agree  
2 that NW Natural will include certain data in its next rate case filing related to the inputs to  
3 its decoupling program and will not argue that no modification can be made to decoupling  
4 because of the Second Stipulation, though NW Natural is not obligated to propose a  
5 modification to its decoupling program.<sup>3</sup> Second, NW Natural will stop collecting customer  
6 deposits from new residential customers and low-income residential customers beginning  
7 November 1, 2022. The criteria for "low-income" and exempt from customer deposits is  
8 set forth in the Second Stipulation. NW Natural will update this eligibility criteria to be  
9 consistent with the results of the AR 653 rulemaking<sup>4</sup> to the extent income eligibility criteria  
10 agreed to in the Second Stipulation differ from the results of that rulemaking.<sup>5</sup> Third, the  
11 Stipulating Parties agree to increase the OLIEE funding by \$4,000 per dwelling—subject  
12 to additional consultation with the OLIEE Advisory Group and the Community Action  
13 Partner ("CAP") agencies as to the allocation of this increase—and that NW Natural will  
14 make certain revisions to its Tariff Schedule 320 related to the application of the cost-  
15 effectiveness test to high-efficiency gas furnaces (with an exception for red-tagged furnace  
16 replacements), smart thermostats, and attic and wall insulation, and related to its Health,  
17 Safety and Repair ("HSR") allowance section.<sup>6</sup> Fourth, the Stipulating Parties agree that  
18 NW Natural will amortize the 2020 and 2021 balances of the Company's COVID-19  
19 deferral, inclusive of interest and subject to an adjustment of \$163 thousand, over two  
20 years and that certain portions of the deferral as recommended by Staff will be subject to  
21 an earnings test set at the Company's authorized return on equity during the deferral

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<sup>3</sup> Second Stipulation at 3-4 (June 29, 2022).

<sup>4</sup> *In re Revisions to Division 21 Rules to Strengthen Customer Protections Concerning Disconnections*, Docket AR 653.

<sup>5</sup> Second Stipulation at 4.

<sup>6</sup> Second Stipulation at 5-6.



1 period.<sup>7</sup> Furthermore, the Stipulating Parties agree to apply a rate spread allocation  
2 methodology to the COVID-19 deferral amortization consistent with Appendix B to the First  
3 Stipulation and that NW Natural may request a prudence review and amortization of post-  
4 2021 balances in a future proceeding.<sup>8</sup>

5 **Q. Do the Stipulating Parties agree on all the reasons for coming to agreement on the**  
6 **terms of the Second Stipulation?**

7 A. No, the Stipulating Parties do not necessarily have the same reasons for agreeing to  
8 resolve each of the issues included in the Second Stipulation. However, the Stipulating  
9 Parties believe that collectively all the agreed-upon resolutions represent a reasonable  
10 settlement of the issues in the Second Stipulation, and that the Second Stipulation is in  
11 the public interest and will result in rates that are fair, just, and reasonable, and consistent  
12 with the standard in ORS 756.040.

13 **Q. Does the Second Stipulation resolve all issues in this case?**

14 A. No. Paragraph 5 of the Second Stipulation contains the issues explicitly excluded from  
15 the Second Stipulation by the Stipulating Parties:

- 16 a. The Coalition's Objections to the First Stipulation (Coalition's Objection  
17 Testimony filed on June 30, 2022);  
18 b. Line Extension Allowance (CUB/100, Coalition/200, NWN/1800);  
19 c. RNG Automatic Adjustment Clause (NWN/1500, Staff/1700, AWEC/100,  
20 CUB/200, NWN/1600); and  
21 d. Cost Recovery and Rate Spread of the Lexington RNG Project and Deferral  
22 (NWN/1100, CUB/200, Staff/1700, AWEC/100, Coalition/100, NWN/2100,  
23 NWN/2300).

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

<sup>8</sup> Second Stipulation at 7.

1 e. Ensuring that differential rates for low-income customers are in place on or  
2 before the rate effective date for these consolidated proceedings, November 1,  
3 2022.

4 The Stipulating Parties agree that the Paragraph 5 issues will continue to be litigated in  
5 these consolidated cases or, pending additional settlement discussions, may be  
6 incorporated into a separate stipulated agreement entered into at a later date.  
7 Additionally, while SBUA participated in the settlement discussions giving rise to the  
8 Second Stipulation, SBUA did not ultimately join the Second Stipulation. The Stipulating  
9 Parties understand that SBUA intends to litigate Paragraph 4 of the Second Stipulation  
10 regarding the COVID-19 deferral.

### 11 III. SECOND STIPULATION

#### 12 a) *Decoupling*

#### 13 Q. Please describe the Stipulating Parties' agreement regarding decoupling.

14 A. NW Natural utilizes a decoupling mechanism that is designed to break the link between  
15 the Company's revenues and the quantity of gas consumed by customers, thereby  
16 removing the financial incentive to discourage customers from conserving energy.<sup>9</sup> To  
17 facilitate the decoupling mechanism, the Company develops a weather normalized use-  
18 per-customer ("UPC") forecast for its residential and other customer rate classes to create  
19 a short-term weather normalized volume forecast for those rate classes, which forecast it  
20 in turn uses to determine its proposed revenue requirement.<sup>10</sup>

21 In its initial filing, the Company proposed a change related to the decoupling  
22 mechanism. In its Opening Testimony, Staff acknowledged that the Company's proposed  
23 change is standard for general rate case proceedings, that the Company did not propose

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<sup>9</sup> NW Natural/100, Anderson-Kravitz/13.

<sup>10</sup> NW Natural/1400, Wyman/2.

1 any changes to the functionality of its decoupling mechanism in this proceeding,<sup>11</sup> and that  
2 it is mostly satisfied that the mechanism is working as intended.<sup>12</sup> However, Staff  
3 expressed its concern that by not distinguishing between new and established customers,  
4 the Company may be overstating the dollar impact of lower average use per customer  
5 under certain conditions based on the difference in usage between new NW Natural  
6 customers and existing customers.<sup>13</sup> Staff also expressed concern about using a ten-year  
7 window when collecting data on “new” customers, as NW Natural did when responding to  
8 a Staff data request regarding the average annual and monthly usage for established and  
9 new residential customers.<sup>14</sup> To address the concern about how the Company’s  
10 decoupling mechanism assumes the same UPC for both new and established customers,  
11 Staff proposed bifurcating the residential customer groups between “new” and “existing”  
12 customers to calculate separate baseline UPCs for each.<sup>15</sup>

13 In its Reply Testimony, NW Natural stated that revising its decoupling mechanism  
14 may be warranted at some point in the future, but explained how such a revision would  
15 require significant changes to the Company’s customer information system (“CIS”) and,  
16 because the Company will soon begin the process of replacing that outdated CIS system  
17 in its Horizon 2 project, the Company does not think now is the right time to make Staff’s  
18 proposed changes.<sup>16</sup> Additionally, NW Natural acknowledged that Staff did not propose  
19 any changes to the Company’s Weather Adjusted Rate Mechanism (“WARM”),<sup>17</sup> but  
20 clarified that, in NW Natural’s view, Staff’s proposal would require the Company to change  
21 its WARM program as well as the decoupling mechanism because both mechanisms

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<sup>11</sup> Staff/1300, Scala/18.

<sup>12</sup> Staff/1300, Scala/19.

<sup>13</sup> Staff/1300, Scala/19.

<sup>14</sup> Staff/1300, Scala/20.

<sup>15</sup> Staff/1300, Scala/25-26.

<sup>16</sup> NW Natural/2300, Walker-Wyman/25-26.

<sup>17</sup> NW Natural/2300, Walker-Wyman/24.

1 utilize the same inputs.<sup>18</sup> To address Staff's proposal to bifurcate the residential  
2 decoupling calculation between established customers and new customers that join the  
3 system after each rate case—while also recognizing the Company's concerns about the  
4 challenges of making such a change now—NW Natural proposed making a decoupling  
5 and WARM proposal in its first general rate case following its CIS implementation (i.e.,  
6 Horizon 2).<sup>19</sup>

7 As a result of their settlement discussions, the Stipulating Parties agree that NW  
8 Natural will include the following information in its next rate case: (1) the number of new  
9 customers forecasted within the rate case filing and (2) UPC data that includes the  
10 Company's UPC for existing residential customers and ten years of data to develop a UPC  
11 for customers taking service at new residential premises.<sup>20</sup> However, the Stipulating  
12 Parties have not agreed that ten years is the appropriate time period to develop a UPC for  
13 new residential customers.<sup>21</sup> Additionally, the Stipulating Parties agree that NW Natural  
14 is not obligated to propose a modification to its decoupling program in its next rate case  
15 but that NW Natural will not argue that no modification can be made as a result of the  
16 Second Stipulation and will not argue that implementing a two-part (existing  
17 customers/new customers) decoupling mechanism is not technically feasible.<sup>22</sup> NW  
18 Natural may present evidence and argument regarding the costs to implement any  
19 proposed modifications to its decoupling program.<sup>23</sup>

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<sup>18</sup> NW Natural/2300, Walker-Wyman/25-27. NW Natural explained the relationship between its decoupling mechanism and WARM in greater detail in its Initial Filing at NW Natural/1300, Walker/10. Staff notes that it does not believe any changes are needed in WARM if a two-part decoupling mechanism is adopted. This settlement assures that the information for determining the UPCs for new customers in a two-part decoupling mechanism will be available in the next rate case and such implementation issues can be addressed in that docket.

<sup>19</sup> NW Natural/2300, Walker-Wyman/28.

<sup>20</sup> Second Stipulation at 3-4.

<sup>21</sup> Second Stipulation at 4.

<sup>22</sup> Second Stipulation at 4.

<sup>23</sup> Second Stipulation at 4.

1 **Q. Please explain why the Stipulating Parties' agreement regarding decoupling is**  
2 **reasonable.**

3 A. The Stipulating Parties agree that, in the context of an overall settlement, the filing  
4 requirements placed on NW Natural in its next rate case are reasonable considering the  
5 Stipulating Parties' positions on this issue and will provide useful data to help inform the  
6 parties' positions on decoupling in the next case.

7 **b) Residential Customer Deposits**

8 **Q. Please describe the Stipulating Parties' agreement regarding residential customer**  
9 **deposits.**

10 A. In its Opening Testimony, CUB recommended that NW Natural no longer collect  
11 residential customer deposits after the rate effective date in this general rate case and  
12 remove all rules from its tariff book that reference collecting deposits from residential  
13 customers.<sup>24</sup> CUB argued that customer deposits increase the "energy burden" for  
14 residential customers, especially low-income customers,<sup>25</sup> and may exacerbate the  
15 housing crisis.<sup>26</sup> CUB pointed to other utilities in North America that have suspended  
16 customer deposits as support for its position<sup>27</sup> and posited that this change would have a  
17 minimal effect on NW Natural because NW Natural is not collecting deposits through  
18 October 2022 due to the COVID-19 pandemic and pursuant to Commission order.<sup>28</sup>

19 In Reply Testimony, the Company opposed CUB's proposal to eliminate residential  
20 customer deposits entirely and instead proposed to eliminate residential customer  
21 deposits for customers that self-certify as low-income customers.<sup>29</sup> NW Natural explained

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<sup>24</sup> CUB/100, Jenks/27.

<sup>25</sup> CUB/100, Jenks/28-29.

<sup>26</sup> CUB/100, Jenks/29-30.

<sup>27</sup> CUB/100, Jenks/31.

<sup>28</sup> CUB/100, Jenks/30-31.

<sup>29</sup> NW Natural/1600, Kravitz/14.

1 that it provides gas to its customers and thereafter bills those customers for the gas they  
2 consumed, thereby extending credit to each customer each month by allowing for the  
3 usage of natural gas prior to the customer paying for it.<sup>30</sup> In turn, NW Natural evaluates  
4 the creditworthiness of customers during the service application process and collects a  
5 deposit from those customers not deemed creditworthy based on an objective standard  
6 that considers prior utility service, employment, and verifiable sources of regular income,  
7 among other things.<sup>31</sup> Additionally, the Company noted, NW Natural refunds customers  
8 their deposits—with interest—after the customer establishes creditworthiness.<sup>32</sup> In short,  
9 the Company stated that it thinks the practice of collecting customer deposits is a  
10 reasonable means of reducing the level of uncollectible expense<sup>33</sup> and concluded by  
11 arguing that its proposal to eliminate the collection of customer deposits for low-income  
12 customers strikes an appropriate balance between CUB’s concerns and the Company’s  
13 goals and is consistent with the current direction for the AR 653 rulemaking.<sup>34</sup>

14 As a result of their settlement discussions, the Stipulating Parties agree that,  
15 beginning November 1, 2022, NW Natural will stop collecting customer deposits from new  
16 residential customers as a precondition to establishing service, and residential customers  
17 who are currently enrolled in the Low-Income Home Energy Assistance Program  
18 (“LIHEAP”), and/or the Company’s energy assistance programs, or who self-certify as low-  
19 income.<sup>35</sup> NW Natural may continue its practice of collecting customer deposits from  
20 residential customers who have been disconnected for nonpayment, except for low-  
21 income customers. The Stipulating Parties further agree that the income eligibility for self-

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<sup>30</sup> NW Natural/1600, Kravitz/15.

<sup>31</sup> NW Natural/1600, Kravitz/15-16.

<sup>32</sup> NW Natural/1600, Kravitz/17.

<sup>33</sup> NW Natural/1600, Kravitz/18.

<sup>34</sup> NW Natural/1600, Kravitz/24-25.

<sup>35</sup> Second Stipulation at 4.

1 certification will be set at 60 percent of State Median income (adjusted for household size),  
2 but that, if the AR 653 rulemaking establishes an income eligibility for customer deposits,  
3 NW Natural will update its income eligibility for customer deposits to align with the results  
4 of the AR 653 rulemaking.<sup>36</sup>

5 **Q. Please explain why the Stipulating Parties' agreement regarding residential**  
6 **customer deposits is reasonable.**

7 A. The Stipulating Parties agree that, in the context of an overall settlement, and based on  
8 CUB's and the Company's positions on this issue, it is reasonable for NW Natural to stop  
9 collecting customer deposits from new residential customers as a precondition to  
10 establishing service, and low-income residential customers, beginning November 1, 2022  
11 and for the Company to update the agreed-to income eligibility for customer deposits to  
12 align with the results of the AR 653 rulemaking if the AR 653 criteria are different.

13 **c) Oregon Low Income Energy Efficiency Program (Tariff Schedule 320)**

14 **Q. Please describe the Stipulating Parties' agreement regarding the OLIEE Program.**

15 A. In its Opening Testimony, the Coalition expressed concern regarding the Schedule 320  
16 exception to the cost-effectiveness test for the replacement of existing gas furnaces with  
17 high efficiency gas furnaces,<sup>37</sup> recommending that the exception be removed from  
18 Schedule 320.<sup>38</sup> Additionally, the Coalition raised concern with the current Schedule 320  
19 \$1,000 limit on funds available for HSR measures,<sup>39</sup> recommending that the limit be  
20 increased, but did not specify by what amount.<sup>40</sup> Furthermore, the Coalition proposed to  
21 add language to Schedule 320 to promote investments in attic and wall insulation, even

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<sup>36</sup> Second Stipulation at 4-5.

<sup>37</sup> Coalition/300, Fain/22-23.

<sup>38</sup> Coalition/300, Fain/22, 28.

<sup>39</sup> Coalition/300, Fain/22, 30.

<sup>40</sup> Coalition/300, Fain/30.

1 when those investments do not meet the cost-effectiveness test.<sup>41</sup> Specifically, the  
2 Coalition recommended that Schedule 320 be revised to expressly allow for the  
3 combination of attic and wall insulation with smart thermostats as an energy efficiency  
4 measure not subject to the cost-effectiveness test.<sup>42</sup>

5 In its Reply Testimony, NW Natural clarified that the exception to the cost-  
6 effectiveness test for gas furnace replacement is specific to the installation of new high-  
7 efficiency natural gas furnaces to replace non-functioning heating equipment—equipment  
8 that is “red-tagged” or non-functional and which could not pass a cost-effectiveness test  
9 due to its non-operational condition.<sup>43</sup> NW Natural strongly believes that it is critically  
10 important to allow for the replacement of non-functioning equipment with a safe and  
11 efficient heating source.<sup>44</sup> Regarding the increase to the current level of funding for HSR  
12 measures, NW Natural was not opposed to increase the limit, but that to the extent that  
13 an increase may be needed, the Company would work with its key stakeholders for the  
14 OLIEE program, the CAP agencies, and the OAC to determine the appropriate amount  
15 and allocation of funds within the OLIEE program.<sup>45</sup> Lastly, NW Natural did not  
16 recommend revising the language of Schedule 320 to remove the cost-effectiveness test  
17 for the installation of the attic and wall insulation installation because funding is available  
18 for these energy efficiency measures through complementary funding sources.<sup>46</sup>

19 As a result of the settlement discussions, the Stipulating Parties agree to increase  
20 the total OLIEE funding by \$4,000 per dwelling.<sup>47</sup> The allocation of these additional funds  
21 will be subject to consultation between the OLIEE Advisory Group and the CAP agencies,

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<sup>41</sup> Coalition/300, Fain/28-29.

<sup>42</sup> Coalition/300, Fain/28-29.

<sup>43</sup> NW Natural/2200, Moerlins/7.

<sup>44</sup> NW Natural/2200, Moerlins/8.

<sup>45</sup> NW Natural/2200, Moerlins/10.

<sup>46</sup> NW Natural/2200, Moerlins/14.

<sup>47</sup> Second Stipulation at 5.



1 to be allocated among energy efficiency measures, CAP administrative costs, or HSR  
2 measures allowance.<sup>48</sup> Of this \$4,000, at least \$1,500 should be reserved for the HSR  
3 measures allowance, to the extent there are HSR measures at the dwelling.<sup>49</sup>

4 In addition to the increase in funding per premise, NW Natural will make the  
5 following revisions to Schedule 320: clarify that high-efficiency gas furnace installations  
6 are subject to a cost-effectiveness test, with an exception for red-tagged furnace  
7 replacements and that the existing exception for furnace replacements under the HSR  
8 Allowance in Schedule 320 remains in place;<sup>50</sup> clarify that smart thermostats, attic  
9 insulation, and wall insulation need not be subject to the cost-effectiveness test;<sup>51</sup> and  
10 clarify the language in Schedule 320 regarding the parameters of the HSR exception for  
11 standard efficiency furnace replacement.<sup>52</sup>

12 **Q. Please explain why the Stipulating Parties' agreement regarding the OLIEE Program**  
13 **is reasonable.**

14 A. The Stipulating Parties agree that the agreement regarding revisions to Schedule 320 are  
15 reasonable. The revised terms of Schedule 320 will provide increased benefits to NW  
16 Natural's low-income customers. The Stipulating Parties agree that these revisions reflect  
17 a reasonable compromise between the Stipulating Parties' positions.

18 ***d) COVID-19 Deferral, Amortization and Rate Spread***

19 **Q. Please describe the Stipulating Parties' agreement regarding NW Natural's COVID-**  
20 **19 deferral, amortization and rate spread.**

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<sup>48</sup> Second Stipulation at 5.

<sup>49</sup> Second Stipulation at 5.

<sup>50</sup> Second Stipulation at 5.

<sup>51</sup> Second Stipulation at 6.

<sup>52</sup> Second Stipulation at 6.

1 A. NW Natural did not request to amortize its COVID-19 deferral in its Initial Filing, proposing  
2 instead to continue to defer the costs for later recovery.<sup>53</sup> In its Opening Testimony, Staff  
3 recommended that the Company begin amortizing the total amount in the COVID-19  
4 deferral through 2021, plus interest, over a two-year period as a temporary increment in  
5 its Purchased Gas Adjustment (“PGA”), effective November 1, 2022.<sup>54</sup> Staff proposed  
6 some adjustments to the Company’s deferred costs and timing of deferred costs, which  
7 changes resulted in a proposed downward adjustment of approximately \$300 thousand to  
8 the Company’s deferral balance as of December 31, 2021.<sup>55</sup> Additionally, Staff proposed  
9 grouping the COVID-19 deferral costs into three groups and recommended a different rate  
10 spread approach for each group based on an analysis of cost causation and, for one  
11 category, the flow of direct and indirect economic benefits to each customer class.<sup>56</sup> Staff  
12 also proposed an earnings test set at 50 basis points below the Company’s authorized  
13 return on equity (“ROE”) for the Company’s COVID-19 direct costs, or “Item A” costs as  
14 shown in Table 15-2 of Staff’s testimony.<sup>57</sup> Staff proposed full recovery of the “Items B  
15 through F” of Table 15-2, which included Late Payment Fees Not Assessed, Bad Debt  
16 Expense Above Baseline, Reconnections and Field Visits April 1, 2021 to October 1, 2022,  
17 Foregone Reconnection Charges through November 15, 2020, and COVID-19 Bill  
18 Payment Assistance Program.<sup>58</sup> CUB, in its Opening Testimony, agreed that expenses  
19 related to COVID-19 are appropriate for deferred accounting and proposed that the  
20 Company’s COVID-19 costs be recovered from all customers on an equal cent per them  
21 basis.<sup>59</sup>

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<sup>53</sup> NW Natural/100, Anderson-Kravitz/7.

<sup>54</sup> Staff/1500, Dlouhy-Fox-Storm/2.

<sup>55</sup> Staff/1500, Dlouhy-Fox-Storm/13-15.

<sup>56</sup> Staff/1500, Dlouhy-Fox-Storm/43-44.

<sup>57</sup> Staff/1500, Dlouhy-Fox-Storm/15, 17.

<sup>58</sup> Staff/1500, Dlouhy-Fox-Storm/15, 17.

<sup>59</sup> CUB/200, Gehrke/37.

1           In Reply Testimony, the Company did not oppose Staff's proposal to amortize the  
2           COVID-19 deferral over a two-year period beginning November 1, 2022,<sup>60</sup> and agreed  
3           with Staff's proposed reclassification of certain savings from 2021 to 2020 for the purposes  
4           of amortization.<sup>61</sup> However, the Company disagreed with Staff's proposed downward  
5           adjustments to the Company's deferral balance,<sup>62</sup> arguing instead that the Company's  
6           calculations were consistent with Order No. 20-401 in Docket UM 2114, in which the  
7           Commission authorized the Company and other signatory utilities to defer costs  
8           associated with the COVID-19 pandemic for later ratemaking treatment per the conditions  
9           in the stipulation agreement that was adopted in that docket.<sup>63</sup> Additionally, NW Natural  
10          stated that Staff's proposed earnings test set at 50 points below the Company's authorized  
11          ROE would not provide a reasonable rate of return, whereas the Company's authorized  
12          ROE does, and should therefore be used to determine whether the direct costs of COVID-  
13          19 should be amortized.<sup>64</sup> Finally, the Company expressed its support for spreading a  
14          portion of the deferral amortization across every rate class based on principles of cost  
15          causation but did not propose a specific rate allocation.<sup>65</sup>

16                 As a result of their settlement discussions, the Stipulating Parties agree that NW  
17          Natural will amortize its 2020 and 2021 COVID-19 deferral balances, inclusive of interest  
18          accrued on those balances but subject to a negative adjustment of \$163 thousand, over  
19          two years as a temporary increment in its PGA, effective November 1, 2022.<sup>66</sup> The  
20          Stipulating Parties further agree that certain portions of NW Natural's COVID-19 deferral—  
21          specifically the direct costs, as recommended by Staff—will be subject to an earnings test

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<sup>60</sup> NW Natural/2000, Faulk/3.

<sup>61</sup> NW Natural/2000, Faulk/11.

<sup>62</sup> NW Natural/2000, Faulk/5, 10.

<sup>63</sup> NW Natural/2000, Faulk/5, 10.

<sup>64</sup> NW Natural/2300, Walker-Wyman/14.

<sup>65</sup> NW Natural/2300, Walker-Wyman/21.

<sup>66</sup> Second Stipulation at 7.

1 set at the Company's authorized ROE and that NW Natural will apply a rate spread  
2 allocation methodology to the deferred balances that is consistent with Appendix B to the  
3 First Stipulation.<sup>67</sup> Finally, NW Natural may request a prudency review and amortization  
4 of post-2021 COVID-19 deferral balances in a future proceeding.<sup>68</sup>

5 **Q. Please explain why the Stipulating Parties' agreement regarding NW Natural's**  
6 **COVID-19 deferral is reasonable.**

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

17 **Q. Why is using the rate spread allocation methodology in Appendix B appropriate for**  
18 **the COVID-19 deferral?**

19 A. The Stipulating Parties agree that using the rate spread allocation previously agreed to  
20 was a reasonable compromise of the COVID-19 deferral balance issue.

21 **Q. Did SBUA file Cross-Answering Testimony regarding the COVID-19 deferral,**  
22 **including its rate setting approach?**

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<sup>67</sup> Second Stipulation at 7.

<sup>68</sup> Second Stipulation at 7.

1 A. Yes, on June 30, 2022, SBUA filed Cross-Answering Testimony responding to the Staff  
2 Opening Testimony and NW Natural Reply Testimony, and also recommended that the  
3 Commission reject the Second Stipulation that was filed on June 29, 2022.<sup>69</sup> In light of  
4 the timing of this filing and communications with SBUA representatives indicating that they  
5 intend to file additional Objection Testimony, this Joint Testimony is not intended to  
6 respond to SBUA's recently filed testimony, and instead is intended to explain and support  
7 the Stipulating Parties' agreements in the Second Stipulation. The Stipulating Parties  
8 reserve their rights to respond to SBUA's Cross-Answering Testimony. The Stipulating  
9 Parties understand that SBUA will be filing Objection Testimony responding to this Joint  
10 Testimony, and expect to fully address SBUA's arguments in opposition to the COVID-19  
11 deferral in subsequent testimony.

#### 12 IV. SUPPORT FOR THE SECOND STIPULATION

13 **Q. What is the basis for the Second Stipulation?**

14 A. The Second Stipulation is a compromise based on the record in this case, which includes  
15 NW Natural's Initial Filing, the Opening Testimony of Staff, CUB, AWEC, SBUA, and the  
16 Coalition, and NW Natural's Reply Testimony. Over the course of the settlement  
17 discussions, the Stipulating Parties resolved all their differences regarding all the issues  
18 in the Second Stipulation—except for those explicitly excluded in Paragraph 5 of the  
19 Second Stipulation. The Stipulating Parties reached the resolution of the issues in the  
20 Second Stipulation through dialogue, negotiations, and compromise to reach a fair result.

21 **Q. What is your recommendation to the Commission regarding the Second**  
22 **Stipulation?**

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<sup>69</sup> SBUA/200, Kermode/18.

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

3 **Q. Please explain why the Stipulating Parties believe that the Commission should**  
4 **adopt the Second Stipulation?**

5 A. The Stipulating Parties have carefully reviewed NW Natural's Initial Filing, NW Natural's  
6 responses to data requests, the Company's Reply Testimony, and have thoroughly  
7 analyzed the issues during multiple days of settlement discussions. The Stipulating  
8 Parties believe that the adjustments and agreements in the Second Stipulation provide a  
9 fair and reasonable resolution of the issues addressed and resolved by the Second  
10 Stipulation and that the resulting rates are fair, just and reasonable.

11 **a) *NW Natural***

12 **Q. Messrs. Kravitz and Wyman, please explain why NW Natural supports the Second**  
13 **Stipulation.**

14 A. NW Natural believes that each of the terms of the Second Stipulation is supported by  
15 evidence in the record of this proceeding and not contrary to Commission policy. The  
16 Second Stipulation represents a reasonable compromise of each of the issues contained  
17 therein and reflects the significant time, effort, and collaborative spirit of each of the  
18 Stipulating Parties. The Company values the positive regulatory relationships furthered  
19 by settling these issues, and appreciates the opportunity to further narrow the issues being  
20 litigated in this case. Most importantly, NW Natural supports the recommendations  
21 contained in the Second Stipulation as a reasonable compromise of the Stipulating  
22 Parties' positions on the issues.

23 **Q. Does NW Natural agree with all policy and methodological approaches used in the**  
24 **Second Stipulation?**

1 A. No, but the Company supports the Second Stipulation as a whole and appreciates that  
2 the Stipulating Parties were willing and committed to reaching agreement on the terms of  
3 the Second Stipulation.

4 **b) OPUC Staff**

5 **Q. Mr. Fjeldheim and Ms. Scala, please explain why Staff supports the Second**  
6 **Stipulation.**

7 A. Staff finds the terms of the Second Stipulation reasonably addresses the various concerns  
8 brought forth by Staff and other signatory parties to this agreement, including decoupling,  
9 residential customer deposits, the OLIEE program, and the COVID-19 Deferral.

10 As noted earlier in this testimony, Staff's concerns with the Company's partial  
11 decoupling mechanism were centered on the potential impacts of UPC values that did not  
12 sufficiently account for material differences between "new" and "established"  
13 customers. Under conditions where the UPC input overstates customer usage, the  
14 Company would be in a position to over-recover in the decoupling mechanism from per-  
15 therm customer variance calculations. Staff's initial probe of the issue also revealed a lack  
16 of agreement on the parameters of "new" versus "established" for the purposes of  
17 developing a bifurcated mechanism and potentially more accurate UPC  
18 calculation. Based on the need to resolve this definition, Staff finds it reasonable to  
19 temporarily postpone pursuit of a bifurcated decoupling mechanism in Docket No. UG  
20 435. To this end, Staff supports the terms of the Second Stipulation which will allow NW  
21 Natural to come forward with information needed to design a bifurcated decoupling  
22 mechanism in the next NW Natural general rate case.

23 Regarding the elimination of customer deposit collections from new residential  
24 customers as a precondition to establishing service as well as from residential customers  
25 who are currently enrolled in LIHEAP, the Company's energy assistance programs, or

1 who self-certify as low-income, Staff supports these terms as they allow for a more  
2 equitable approach to customer deposits than currently in practice. The existing practice  
3 by which customer deposits are applied tends to favor households with financial stability,  
4 established banking, and a history of energy security. Staff believes this type of practice  
5 stands to exacerbate socioeconomic inequities and disparately limits access to natural  
6 gas service for certain customer groups. These concerns are echoed in the Division 21,  
7 customer protections rulemaking in Docket No. AR 653, which currently proposes to  
8 remove the authority from utilities to collect customer deposits from low-income customers  
9 for many of the same reasons noted here. Staff finds the terms of the Second Stipulation  
10 endeavors to mitigate the likelihood that some of these inequities persist as a result of  
11 customer deposit practices and thus supports its adoption.

12 The Second Stipulation also outlines a series of changes to the OLIEE Program  
13 that addresses equity and EE accessibility concerns from the Coalition regarding  
14 Schedule 320 funding limits and cost-effective tests for EE home upgrades. Staff  
15 appreciates the Coalition's effort to describe the layered complexities relative to the health,  
16 safety, and repair (HSR) costs for low-income households. Increasing the total OLIEE  
17 funding by \$4,000 per dwelling, and allocating \$1,500 per dwelling of that increase to HSR  
18 measures represents a significant increase in funding for HSR measures and directly  
19 improves a home's readiness for weatherization and EE upgrades. Additionally, Staff  
20 agrees with the Coalition's position that clear language with regard to cost-effective tests  
21 and related exemptions promotes greater understanding and accessibility of  
22 weatherization programs. Staff finds it important to specify that cost-effective tests are not  
23 intended to create unnecessary delays or limit adoption of weatherization and EE  
24 upgrades among target low-income customers. As such, Staff supports clear exemptions  
25 for smart thermostats, wall insulation, and attic insulation from cost-effective tests, such



1 that they have already been determined to meet the necessary thresholds by Energy Trust  
2 of Oregon ("ETO"). Further, Staff supports clarification that high-efficiency gas furnaces  
3 are subject to the cost-effectiveness test, with a specific exception for "red-tagged"  
4 furnaces. Staff finds the express terms afford a reasonable balance between concerns  
5 raised by the Coalition around the need for more comprehensive weatherization that allow  
6 for near and long-term energy burden reduction and priorities expressed by NW Natural  
7 to provide a safe and efficient heating source for low-income customers where heating  
8 equipment is no longer functioning.

9 With regard to the COVID-19 Deferral, specifically amortization and rate spread,  
10 Staff is in agreement with AWEC and CUB that the Company begin amortizing the total  
11 amount in the COVID-19 deferral through 2021, plus interest, over a two-year period as a  
12 temporary increment in its PGA, effective November 1, 2022. Near-term amortization of  
13 the COVID-19 deferral was an issue brought forward by Staff in opening testimony and  
14 was borne from cognizance of comprehensive rate impacts faced by utility customers in  
15 upcoming years. Staff finds that the two-year amortization period balances Staff's desire  
16 to initiate timely COVID-19 cost recovery with being conscientious that several rate  
17 adjustments will be impacting customer bills. The reduction in the Covid adjustment from  
18 Staff's opening testimony position reflects a correction to Staff's analysis and so Staff  
19 supports this new level of recovery. Further, for purposes of settlement, Staff supports  
20 the agreement that the direct costs of NW Natural's COVID-19 deferral will be subject to  
21 an earnings test set at the Company's authorized ROE without any basis points reduction.

22 Finally, regarding the use of the previously agreed upon UG 435 rate spread in  
23 Appendix B of the First Stipulation, Staff finds the allocation methodology remains sound  
24 and reasonable for the purposes of the COVID-19 deferral costs. Staff finds the resulting  
25 cost allocation of the First Stipulation rate spread sufficiently represents a fair distribution

1 of costs and recognition of the intended non-bypassibility as described in the UM 2114  
2 Stipulation.

3 **c) CUB**

4 **Q. Mr. Jenks, please explain why CUB supports the Second Stipulation.**

5 A. CUB recommends that the Commission approve the Second Stipulation as it furthers the  
6 public interest. CUB supports all terms of the Second Stipulation, and its believes it results  
7 in a reasonable resolution of issues contained therein. CUB's support of the Second  
8 Stipulation around residential customer deposits is a compromise position to provide relief  
9 towards residential customers. This stipulation will reduce the amount of customer  
10 deposits collected from residential customers, and will especially offer relief to low-income  
11 customers and those starting service on NW Natural's system for the first time. Despite  
12 this compromise, in future regulatory proceedings, CUB may advocate for the elimination  
13 of residential customer deposits. CUB supports the COVID-19 cost allocation contained  
14 in the stipulation because it allocates NW Natural's COVID-19 to all customer classes.  
15 CUB firmly believes this is the appropriate treatment for COVID-19-related costs, as they  
16 were incurred due to an extraordinary event beyond any customers' control.

17 **d) AWEC**

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

19 A. AWEC recommends that the Commission find that the Second Stipulation is in the public  
20 interest and approve it. AWEC's primary interest in the Second Stipulation was the  
21 treatment of COVID-19 Deferral. The Second Stipulation adopted a rate spread for the  
22 COVID-19 that is consistent with the overall rate spread agreed by parties in Appendix B  
23 to the First Stipulation. By doing so, the rate spread for the COVID-19 Deferral recognizes  
24 the overall results of the cost of service study, which shows that large customer classes  
25 are paying rates that are nearly double their cost of service. By using the overall rate

1 spread, large customers still shared in contributing to the COVID-19 Deferred costs, albeit  
2 in proportion to the overall revenue allocation agreed in the case. AWEC found this  
3 approach to be a reasonable compromise for resolving the COVID-19 Deferral.

4 **e) Coalition**

5 **Q. Ms. Fain, please explain why the Coalition supports the Second Stipulation.**

6 A. With regard to decoupling, and the COVID-19 deferral, the Coalition did not take a position  
7 in support of, or in opposition to these components of the settlement.

8 With regard to the OLIEE Program, the Second Stipulation makes significant  
9 changes to the administration of the OLIEE Program to encourage cost-effective  
10 weatherization of low-income homes. First, the Second Stipulation increases the amount  
11 of funding available to undertake health and safety repairs on low-income homes. As  
12 explained in my Opening Testimony, health and safety repairs provide necessary repairs  
13 to a home such as fixing electrical system, roofing materials, or siding, to enable  
14 installation of weatherization upgrades. If funds are unavailable to complete these  
15 necessary repairs, weatherization improvements cannot be installed. For example,  
16 without repairing roof damage, it may be difficult or impossible to insulate an attic—one of  
17 the most cost-effective weatherization improvements that can be made to a home.  
18 Similarly, electric wiring in walls may need repair, before wall insulation can be installed.  
19 Although not every home will require these upgrades, when a home does require such  
20 upgrades—repairing siding, roofs, or electrical systems can be expensive. Without first  
21 conducting these health and safety repairs, it may be difficult or impossible to install critical  
22 weatherization improvements in a home. The Second Stipulation increases the funds  
23 available for these types of health and safety repairs by providing at least \$1,500 in  
24 additional funds per home, meaning at least \$2,500 on average per home could be used  
25 for health and safety repair. The Second Stipulation also increases the per home

1 expenditure amount, meaning that CAP agencies will have a larger budget per home to  
2 install energy efficiency upgrades, while also conducting health and safety repairs. Given  
3 that the OLIEE Program funds have been under-allocated in program year 2020-2021, we  
4 are hopeful that these tailored and thoughtful changes to the program budget will enable  
5 better utilization and distribution of OLIEE Program funds.

6 Further, by clarifying that smart thermostats, wall insulation, and attic insulation  
7 are exempt from the cost-effectiveness test the Second Stipulation will encourage  
8 adoption of these critical weatherization improvements, which the Energy Trust of Oregon  
9 has already determined are cost-effective. The Second Stipulation also amends the  
10 language in Schedule 320 to clarify that high-efficiency gas furnaces are subject to the  
11 cost-effectiveness test, with an exception for red-tagged furnaces that must be replaced.

12 We see effective low-income home weatherization as a critical step in both poverty  
13 alleviation and improving climate resilience for low-income communities. This Second  
14 Stipulation will help achieve these goals, and therefore is in the public interest.

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

16 **A. Yes.**