



June 6, 2024

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

**Re: UG 490 – Application of NW Natural for a General Rate Revision
Reply Testimony - ERRATA**

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), files herewith an errata to its Reply Testimony that was filed on June 4, 2024. This errata:

- Removes UG 435, Staff/601-604, Cohen (pages 30-46) from NW Natural/3101, Rogers. NW Natural/3101, Rogers is to include only the redacted testimony portion of UG 435, Staff/600, Cohen.
- Updates the page numbers and exhibit description to the Table of Contents of NW Natural/3101-3102, Rogers to reflect the correct number of pages and exhibit reference to NW Natural/3101, Rogers, provided in redline and a clean version.

Please address correspondence on this matter to me with copies to the following:

Eric Nelsen
NW Natural
Senior Regulatory Attorney
250 SW Taylor Street
Portland, Oregon 97204
Telephone: (503) 610-7618
eric.nelsen@nwnatural.com
OSB #192566

eFiling
NW Natural
Rates and Regulatory Affairs
250 SW Taylor Street
Portland, Oregon 97204
Telephone: (503) 610-7330
eFiling@nwnatural.com

Jocelyn Pease
McDowell Rackner & Gibson PC
419 SW 11th Ave, Ste. 400
Portland, OR 97205
Telephone: (503) 595-3620
dockets@mrg-law.com
OSB #102065

Public Utility Commission of Oregon
UG 490 NWN Reply Testimony ERRATA
June 6, 2024; Page 2

Respectfully submitted,

NW Natural

/s/ Zachary Kravitz

Zachary Kravitz
Vice President, Rates & Regulatory Affairs
zachary.kravitz@nwnatural.com

Enclosures

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

UG 490

NW Natural

Exhibits of Melinda B. Rogers

**COMPENSATION & BENEFITS
EXHIBITS 3101 – 3102**

June 4, 2024

EXHIBITS 3101-3102 – COMPENSATION & BENEFITS

Table of Contents

Exhibit 3101 – UG 435 Staff/600-~~604~~, Cohen (Redacted only) 1-~~2946~~

Exhibit 3102 – UE 416 Staff/1300, Jent/13-14..... 1-2

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

UG 490

NW Natural

Exhibits of Melinda B. Rogers

**COMPENSATION & BENEFITS
EXHIBITS 3101 – 3102**

June 4, 2024

EXHIBITS 3101-3102 – COMPENSATION & BENEFITS

Table of Contents

Exhibit 3101 – UG 435 Staff/600, Cohen (Redacted only) 1-29
Exhibit 3102 – UE 416 Staff/1300, Jent/13-14..... 1-2

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

UG 490

NW Natural

Exhibit of Melinda B. Rogers

**COMPENSATION & BENEFITS
EXHIBIT 3101**

June 4, 2024

CASE: UG 435
WITNESS: HEATHER COHEN

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 600

Opening Testimony

April 22, 2022

Docket No: UG 435

Staff/600
Cohen/1

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Heather Cohen. I am a Senior Utility Analyst employed in the
3 Rates, Finance and Audit (RFA) Division of the Public Utility Commission of
4 Oregon (OPUC). My business address is 201 High Street SE, Suite 100,
5 Salem, Oregon 97301.

6 **Q. Please describe your educational background and work experience.**

7 A. My witness qualification statement is found in Exhibit Staff/601.

8 **Q. What is the purpose of your testimony?**

9 A. I provide background, analysis, and recommendations regarding the
10 Company's Test Year expense for wages, salary, incentives, and full-time
11 equivalents (FTE). I also address the Company's Test Year expense for
12 customer account, customer services, sales expenses as well as some
13 miscellaneous Operation and Maintenance(O&M) expenses.

14 **Q. How is your testimony organized?**

15 A. My testimony is organized as follows:

16	Issue 1. Wages, Salaries and FTE	3
17	Figure 1: Incentives From Company Testimony	7
18	Figure 2: W&S Model Adjustments.....	11
19	Figure 3: Overtime Adjustment.....	12
20	Figure 4: FTE.....	12
21	Figure 5: Staff Calculated Incentives	13
22	Figure 6: Incentives Adjustment	14
23	Figure 7: W&S Adjustments	16
24	Issue 2. Customer Account, Customer Service and Sales Expenses.....	17
25	Figure 8: Customer Account, Services and Sales 2020-TY.....	18
26	Figure 9: FERC 911 and FERC 912 Increases 2020-Base Year.....	20

Docket No: UG 435

Staff/600
Cohen/2

1	Figure 10: Adjustment to FERC 908 Dealer Relations	21
2	Figure 11: FERC 912 Corporate Identity, Dealer Relations & Professional	
3	Services.....	21
4	Issue 3. Miscellaneous O&M Expense Increases.....	27

Docket No: UG 435

Staff/600
Cohen/3

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17

ISSUE 1. WAGES, SALARIES AND FTE

Q. Please provide a summary of the Commission’s historical method for determining the amount to include in a utility’s revenue requirement for wages, salaries, incentives, and overtime expense.

A. The Commission’s methodology has many components. The Commission determines the appropriate level of wages and salaries for employees in the Test Year using its three-year wage and salary (W&S) model to estimate union and non-union payroll levels for energy utilities.^{1,2} The model determines an appropriate level of Test Year expense and capital investment for wages and salaries by escalating the Company’s base year wages and salaries by annual changes to the All-Urban CPI (for non-union) or negotiated increases (for union) and applying a sharing mechanism between the wages and salaries determined by the W&S model and the wages and salaries proposed by the utility.

To determine the appropriate amount to include in revenue requirement for incentives paid to employees, the Commission’s policy is to disallow 100 percent of officers’ bonuses because they are typically based on increased

¹ *In the Matter of Northwest Natural Request for a General Rate Revision*, Docket No. UG 132, Order No. 99-697 at 43 (November 12, 1999); and *In the Matter of PacifiCorp dba Pacific Power Request for a General Rate Revision*, Docket No. UE 374, Order No. 20-473 at 102 (December 18, 2020).

² *See Pacific Power & Light*, Docket No. UE 116, Order No. 01-787 at 40 (September 7, 2001); *Northwest Natural*, Order No. 99-697 at 43; *In the Matter of the Application of Portland General Electric Company for Approval of Customer Choice Plan*, Docket No. UE 102, Order No. 99-033 at 61 (January 27, 1999); and *In the Matter of the Revised Tariff Schedules for Electric Service in Oregon filed by Portland General Electric Company*, Docket No. UE 88, Order No. 95-322 at 10 (March 29, 1995).

Docket No: UG 435

Staff/600
Cohen/4

1 earnings, which benefit shareholders.³ It is also Commission policy to disallow
2 75 percent of performance-based bonuses because they are generally focused
3 on increased earnings and therefore bring more benefit to shareholders. The
4 Commission disallows 50 percent of merit-based bonuses because they
5 equally benefit shareholders and ratepayers. Union bonuses are treated in the
6 same manner as non-union bonuses.⁴

7 Finally, the Commission determines the appropriate ratio of expense and
8 capital to apply to the total forecasted compensation and applies it to determine
9 what compensation expense that is included in Test Year expense and what
10 compensation is included rate base.

11 **Q. Please explain how Staff used the Three-Year W&S model to arrive at its**
12 **recommendation for wage and salary levels for the Test Year.**

13 A. As a starting point for determining non-union wages for each employee class,
14 the W&S model uses the utility's actual wage, salary, and overtime levels as
15 they existed three years prior to the Test Year.⁵ For example, a 2022 Test
16 Year would require a Base Year of 2019. From there, the Base Year wages
17 and salaries are adjusted by a year-over-year escalation of expenses using the
18 All-Urban CPI for each of the three subsequent years to establish a forecast of
19 Test Year wage and salary levels.⁶

³ See *Northwest Natural*, Order No. 99-033 at 62; and *In the Matter of the Application of US West Communications, Inc. Application for an Increase in Revenues*, Docket No. UT 125, Order No. 97-171 at 74-76 (May 19, 1997).

⁴ See *PacifiCorp*, Order No. 20-473 at 97; *Northwest Natural*, Order No. 99-697 at 44-45; and *PGE*, Order No. 99-033 at 62.

⁵ See *Northwest Natural*, Order No. 99-697 at 43.

⁶ *Ibid.*

Docket No: UG 435

Staff/600
Cohen/5

1 In effect, the model calculates the average salary based on the
2 Company's actual Base Year calendar payroll (2020), divided by the actual
3 Base Year FTE (2020), then escalates the average by the annual changes to
4 the All-Urban CPI for 2021, 2022, and 2023. Once the escalated amount is
5 determined, it is compared to the Company's Test Year figures.⁷ At this point
6 the sharing principle is applied, wherein Staff adjusts its forecasted amount to
7 allow the Company to share 50/50 the lesser of the difference between the
8 model forecast and the amount the Company has included in its Test Year or a
9 10 percent band around Staff's projection.⁸

10 For non-union wages, the W&S model incorporates actual market-based
11 data by using historic wages and adjusting for inflation using the All-Urban CPI
12 index.⁹ The Commission has consistently validated the All-Urban CPI to adjust
13 historic wages and salaries as "adjusting payroll levels by changes in inflation
14 provides employees the same real level of compensation as in the base year
15 and provides an incentive to companies to minimize labor costs."¹⁰ Further, the
16 methodology of equally dividing between ratepayers and shareholders the
17 difference between the utility's Test Year forecast and the forecast obtained by
18 the model allows for some adjustments to reflect changes in market conditions
19 without allowing unchecked escalation.¹¹

7 Ibid.

8 Ibid.

9 Ibid.

10 Ibid.

11 *PGE*, Order No. 95-322 at 10.

Docket No: UG 435

Staff/600
Cohen/6

1 For union wages, the W&S model again starts with actual wages three
2 years before the Test Year. Rather than escalating the wages using All-Urban
3 CPI, wages are escalated using negotiated wage increases as set forth in
4 union contracts, and Staff's final adjustment incorporates any sharing between
5 the Company's Test Year forecast and the forecast obtained under the W&S
6 model.¹² In Order 20-473 (2020) in PacifiCorp's general rate case, the
7 Commission rejected Staff's proposed 50/50 sharing between Staff's Test Year
8 determination of expense for union wages and salaries and the Company's
9 projection. The Commission concluded that the arms-length nature of the
10 negotiations regarding wages was sufficient protection for ratepayers.¹³

11 **Q. Please summarize Company's proposal for wages, salaries, incentives**
12 **and overtime expense in this case.**

13 **A.** The Company's 2023 Test Year includes \$106 million in wages and salaries
14 (base pay), \$11.5 million in incentive compensation, and
15 \$6.8 million in overtime.¹⁴ While the Company's initial testimony reported a
16 total of \$11.3 million in incentives, the Company corrected their Non-Exempt
17 Restricted Stock Units (RSU) amounts to \$437,254.¹⁵ The Oregon allocation
18 factor is 100 percent with a O&M/Capital split of 59.8/40.2.¹⁶

¹² See *Northwest Natural*, Order No. 99-697 at 43.

¹³ See *PacifiCorp*, Order No. 20-473 at 94.

¹⁴ NW Natural/800, Rogers/5, 17.

¹⁵ Staff/602, Cohen/4, NWN Response to Staff DR 265, Tab 267/269, Footnote 2 (electronic spreadsheet).

¹⁶ Staff/602, Cohen/1, NWN Response to Staff DR 93.

Docket No: UG 435

Staff/600
Cohen/7

1

FIGURE 1: INCENTIVES FROM COMPANY TESTIMONY

<i>Original</i>	Executive	NBU
Short Term Incentive		
O&M	526,519	4,550,462
Capital	466,688	2,987,243
	993,207	7,537,705
State Allocation	88.29%	89.26%
OR Utility Short Term Incentive		
Comp	876,910	6,727,889
OR LTIP (O&M)	2,109,952	145,372
OR Stock Expense (O&M)/RSUs	1,276,553	135,547
OR Pay At Risk	4,263,415	7,008,808

<i>Corrected</i>	Exec	NBU	Total
OR LTIP	2,109,952	145,372	2,255,324
OR RSUs	1,276,553	437,254 *	1,713,807
OR Short Term Incentive	876,910	6,727,889	7,604,799
Total	4,263,415	7,310,515	11,573,930

*See DR 265 Tab 267/269 footnote 2, Company corrects non-exempt RSUs to \$437,254

2

3

4

5

6

7

8

9

10

11

12

The Company states it removed half of the officer short-term incentives associated with net income from its proposed Test Year.¹⁷ However, also included in the Test Year Operations and Maintenance expense is \$1.9 million of stock expense, which includes the employee stock purchase plan as well as \$2.3 million of the Long-Term Incentive Plan for Officers and key employees.¹⁸ With respect to officer incentives capitalized in plant since the effective date of NW Natural's last general rate increase (November 1, 2020), Staff included incentives in the last two months of 2020 and the entirety of 2021. Staff calculates Northwest Natural's proposed Revenue Requirement includes total officer incentives capitalized in plant for that period at \$954 thousand.¹⁹

Q. How does the Company determine the compensation for employees?

¹⁷ NW Natural/800, Rogers/5.

¹⁸ NW Natural/1200, Davilla/18.

¹⁹ Staff/602, Cohen/8, NWN Response to Staff DR 344 (electronic spreadsheet).

Docket No: UG 435

Staff/600
Cohen/8

1 A. NW Natural testifies that it uses third party survey data completed in 2020 to
2 ensure base pay midpoints are at the median of comparable companies for
3 Non-Bargaining Unit (NBU) employees. Bargaining Unit (BU) employee pay is
4 determined through a negotiated process that uses comparable market survey
5 data and union contracts as points of comparison for setting wage steps. The
6 Company uses compensation data provided by independent compensation
7 consultant Pay Governance to set officer pay.²⁰

8 In addition to base pay, the Company offers the following incentives:

- 9
- 10 • Goals Incentive Program: Offered to NBU non-officer employees for
those who meet or exceed their annual performance objectives.
 - 11 • Employee Stock Purchase Plan: Allows employees to purchase
12 common stock at 85 percent of closing price.²¹
 - 13 • Executive Annual Incentive Plan: Short-term incentive program or
14 cash-payments for Officers that is based on a weighted formula of
15 70 percent Company Performance Factor (71.43 percent Net
16 income and 28.57 percent Operations) and 30 percent
17 Priority/Individual Goals (which includes a Return on Invested
18 Capital (ROIC) component).²²

²⁰ NW Natural/800, Rogers/4.

²¹ NW Natural/800, Rogers/9-11.

²² NW Natural Schedule 14A Proxy Statement, April 15, 2021,
<https://www.sec.gov/Archives/edgar/data/1733998/000119312521117464/d45834ddef14a>.

Docket No: UG 435

Staff/600
Cohen/9

- 1 • NBU Short-Term Incentive Plan: Offered to non-officers and is
2 based on customer service, company growth and public and
3 employee safety goals.²³
- 4 • Long-Term Incentive Plan (LTIP): Qualifying officers and key NBU
5 employees are eligible for the LTIP which comes in the form of
6 stock, restricted stock, restricted stock units, stock options or
7 performance shares.²⁴ Officers receive 35 percent of their
8 compensation in the form of Restricted Stock Units and 65 percent
9 in the form of Performance Shares. RSUs vest over four years if
10 Return-on-Equity performance threshold is met while performance
11 share awards are based on achieving ROIC threshold, three-year
12 Cumulative Earnings-per-Share (EPS) and a modifier based on
13 Relative Total Shareholder Return (TSR).²⁵ The three-year
14 cumulative EPS as well as the Relative TSR were chosen “to align
15 executives’ interest with shareholders interest.”²⁶

16 **Q. What adjustments did the Company make to its actual 2020 Base Year**
17 **salaries and wages to forecast the 2023 Test Year?**

18 A. To project its Test Year, the Company escalates its 2021-year end NBU
19 employee salaries by 4.6 percent in 2022 and 4.35 percent in 2023. This

²³ NW Natural/800, Rogers/9-11.

²⁴ NW Natural 10-k, Fiscal Year Ended 12/31/21,
<https://www.sec.gov/ix?doc=/Archives/edgar/data/1733998/000173399822000005/nwn-20211231.htm>.

²⁵ NW Natural Schedule 14A Proxy Statement, April 15, 2021,
<https://www.sec.gov/Archives/edgar/data/1733998/000119312521117464/d45834ddef14a>.

²⁶ *Ibid.*

Docket No: UG 435

Staff/600
Cohen/10

1 includes merit increases of 4 percent and 3.75 percent with an additional 0.6
2 percent to reflect promotions and equity adjustments. Salary increases are
3 also influenced by CPI Western increases of 4.5 and 3.9 percent in 2021 and
4 2022. Based on union contracts, bargaining unit employee salary is escalated
5 3.5 percent June 2021 and every June 1st thereafter until the end of the
6 contract in 2024. Union increases include an additional 0.8 percent to account
7 for movement throughout the training steps. Officers were escalated by the
8 same percentages as NBUs with other updates to officer salaries who were
9 paid below the competitive range of market data.²⁷

Wages, Salaries, Overtime & FTE Recommendation

Q. What is Staff's recommendation for Test Year wages and salaries including and overtime?

13 A. Staff, consistent with the W&S model, starts with a Base Year (2020) that is
14 three years prior to the Test Year, and escalates to the Test Year using All-
15 Urban CPI (CPI) rates, which are 4.7 percent for 2021, 4.2 percent for 2022,
16 and 2.2 percent for 2023.²⁸ Staff escalates BU or union salaries and wages in
17 the same manner as the Company, applying a rate of 3.5 percent for 2021,
18 2022 and 2023 based on collective bargaining increases.²⁹

19 Staff then applied the sharing principle to its and the Company's projected
20 2023 test year amounts. The sharing principle, which allows the Company to

²⁷ NW Natural/800, Rogers/5-6.

²⁸ Oregon Economic & Revenue Forecast March 2022, Volume XLII, No. 1, Table A.4, page 37, <https://www.oregon.gov/das/OEA/Documents/forecast0322.pdf>.

²⁹ NW Natural/800, Rogers/6.

Docket No: UG 435

Staff/600
Cohen/11

1 share 50/50 the lesser of the difference between the Company's and Staff's
 2 calculated projections, or a 10 percent band around Staff's calculated
 3 projection, makes a reduction to Staff's projection. Because of the high
 4 inflation via the CPI, Staff's projection for Exempt, Non-Exempt and Union base
 5 salaries is slightly higher than the Company's, with one exception: Officer
 6 salaries. Staff has a small adjustment to Officer salaries of \$28 thousand O&M
 7 and \$19 thousand rate base.³⁰

8 **FIGURE 2: W&S MODEL ADJUSTMENTS**

Description	Officers	Exempt	Non Exempt	Union
Actual Base Payroll (2020) calendar year	3,327,706	48,746,541	1,016,008	41,913,501
Ave. # of Employees (FTE) (2020)	10	445	14	539
Average Salary	339,903	109,600	72,452	77,825
Allowable % Increase	1.11	1.11	1.11	1.11
Ave. # of Employees (FTE) (Test Year)	10	464	15	537
Projected Payroll	3,653,037	56,653,435	1,241,068	46,331,658
Test Period Payroll	3,748,341	56,179,500	908,243	45,224,165
Total Difference for Sharing	95,304	-	-	-
10% Band - Allowable	365,304	-	-	-
50% Sharing of Lesser of Difference or Band	47,652	-	-	-
Staff Proposed Level	3,700,689	56,179,500	908,243	45,224,165
Net Payroll Adjustment	(47,652)	-	-	-

9

10 **Q. Does Staff have an adjustment for Overtime?**

11 Staff has adjustments for Union Overtime, split between \$544,144 expense
 12 and \$365,796 rate base. Staff calculates a \$1.2 million between Staff's
 13 projection (\$5.6 million) and the Company's (\$6.8 million). Staff's calculation
 14 was based on the Company's union escalation rates of 3.2 percent per year.

³⁰ See Staff/604, Staff electronic work paper UG 435 Exhibit 604 Wage and Salary Model CONF, tab 3-year W&S.

Docket No: UG 435

Staff/600
Cohen/12

1 After the sharing principle is applied, the model suggests an adjustment of half
2 of the initial difference of \$544 thousand O&M and \$365 thousand rate base.³¹

3 **FIGURE 3: OVERTIME ADJUSTMENT**

Description	Officers	Exempt	Non Exempt	Union	Total
Actual Overtime (2020)	-	-	12,356	5,081,152	5,093,508
Average No. of FTE (2020)	10	445	14	539	1,007
Average Overtime per FTE	-	-	881	9,435	
Allowable % Increase	-	-	1.1150	1.1087	
Staff Proposed Level FTE for Test Period	10	464	15	537	1,026
Projected Overtime	-	-	15,093	5,616,743	5,631,836
Test Period Overtime	-	-	6,358	6,807,521	6,813,878
Total Difference	-	-	-	1,190,778	1,182,042
10% Band - Allowable	-	-	-	561,674	
50% Sharing of Lesser of Difference or Band	-	-	-	280,837	
Staff Proposed Level	-	-	6,358	5,897,580	5,903,938
Net Payroll Adjustment	-	-	-	(909,940)	(909,940)
O&M Expense as % of Payroll Exp	1	1	1	1	-
O&M Expense Adjustment - System wide	-	-	-	(544,144)	-
Oregon Allocation Factor	1	1	1	1	1
O&M Expense Adjustment - Oregon	-	-	-	(544,144)	(544,144)
Rate Base as % of Payroll Exp	0	0	0	0	1
Rate Base Adjustment - System wide	-	-	-	(365,796)	(365,796)
Rate Base Adjustment - Oregon	-	-	-	(365,796)	(365,796)

4
5
6

Q. Does Staff have an adjustment for FTE?

7 A. Staff does not have an adjustment for FTE. The Company's FTE count
8 remained flat, never increasing over 3.5 percent since 2018 and Staff is
9 satisfied with the Company's justification for year-over-year FTE changes.³²

10 **FIGURE 4: FTE**

Description	2018	2019	2020	2021	TY
Total System	1,118	1,110	1,124	1,113	1,151
Oregon	998	997	1,007	992	1,026
OR % Change		-0.09%	1.02%	-1.54%	3.42%

11
12

Incentives

³¹ See Staff/604, Staff electronic work paper UG 435 Exhibit 604 Wage and Salary Model CONF, tab 3-year OT.

³² Staff/603, NWN CONF Response to Staff DR 340 (electronic spreadsheet)

Docket No: UG 435

Staff/600
Cohen/13

1 **Q. What does the Company propose for employee incentives?**

2 A. As noted earlier, the Company includes \$11.5 million in incentives in its
3 testimony³³ but only \$8.5 million in its response to Staff DR 92. The
4 discrepancy is due to Standard Data Request 92 reporting only paid cash
5 compensation whereas the \$11.5 million includes non-cash elements such as
6 stock units.³⁴ Staff's count of incentives is also slightly higher at \$11.7 million
7 due to our inclusion of \$174 thousand in Employee Stock Purchase Plan
8 (ESPP) dollars.

9 **FIGURE 5: STAFF CALCULATED INCENTIVES**

Stock Expense including ESPP	2,030,585	Exec	NBU
RSUs	1,843,494	1,373,151	470,342
ESPP	187,092	7,035	180,057
OR Allocation	92.97%	92.97%	92.97%
OR Stock Expense/RSUs including ESPP	1,887,738	1,283,092	604,645
Total LTIP Expense	\$2,554,429	2,389,777	164,652
OR Allocation	88.29%	88.29%	88.29%
OR LTIP	2,255,324	2,109,952	145,372
Short Term Incentives	8,530,912	993,207	7,537,705
OR Allocation	0.89	88.29%	0.89
Total OR Short Term Incentives	7,604,799	876,910	6,727,889
All Incentives		4,269,954	7,477,906
NW Natural Testimony		Exec	NBU
OR LTIP		2,109,952	145,372
OR RSUs		1,276,553	437,254
OR Short Term Incentive		876,910	6,727,889
Total		4,263,415	7,310,515
Difference (ESPP)		6,539	167,391

10

11

12

13

Staff thought it appropriate to include the ESPP since it was included in the Company's O&M Test Year FERC allocation summary within the total stock expense total of \$2,030,585 (or \$1.9 million Oregon) and specifically

³³ NW Natural/800/Rogers/17.

³⁴ Staff/602, Cohen/10, NWN Response to Staff DR 361.

Docket No: UG 435

Staff/600
Cohen/14

1 mentioned in the Company’s testimony as part of the stock expense in
2 Operations.³⁵ The Test Year O&M FERC Allocation also included \$2,554,429
3 in the Long-Term Incentive Plan in the Test Year.³⁶

4 The total breakdown in OR allocated numbers showed \$1.3 million in
5 Stock Expense/RSUs and Employee Stock Plan for Officers and \$605
6 thousand for NBU employees.³⁷ \$2.1 million of Officer Long Term Incentives
7 are also included alongside \$145 thousand for NBU employees. Finally, short
8 term incentives consist of \$876 thousand for Officers and \$6.7 million for NBU
9 employees.

10 **Q. Does Staff propose an adjustment to incentives?**

11 A. Staff proposes excluding 100 percent of Officer incentives (\$4.3 million) and
12 half of non-Officer incentives (\$3.7 million) for a total of \$8 million (\$4.8 million
13 O&M and \$3.2 million capital) based on the Commission’s long-standing
14 policy.³⁸

15 **FIGURE 6: INCENTIVES ADJUSTMENT**

	Officers	Exempt	Non Exempt	Union	Total
Test Period Incentive	\$4,269,954	\$7,395,531	\$82,375	\$0	\$11,747,860
Staff Proposed Level	\$0	\$3,697,766	\$41,187	\$0	\$3,738,953
Net Payroll Adjustment	(\$4,269,954)	(\$3,697,766)	(\$41,187)	\$0	(\$8,008,907)

16

³⁵ Staff/602, Cohen/2, NWN Response to Staff DR 143 Attachment 1, tab O&M TY FERC Allocation Summary cell R12 (electronic spreadsheet), NW/Natural/1200/Davilla/18.

³⁶ Staff/602, Cohen/2, NWN Response to Staff DR 143 Attachment 1, tab O&M TY FERC Allocation Summary cell S12 (electronic spreadsheet).

³⁷ Staff/602, Cohen/4, NWN Response to Staff DR 265 Attachment 1 (electronic spreadsheet).

³⁸ See Staff/604, Staff electronic work paper UG 435 Exhibit 604 Wage and Salary Model CONF.

Docket No: UG 435

Staff/600
Cohen/15

1 The Commission's policy in disallowing 100 percent of officers' bonuses
2 and 50 percent of non-officer bonuses is based on the conclusion these
3 percentages of bonuses for each type of employee are typically based on
4 increased earnings, which benefits shareholders.³⁹ While the Company's
5 removal of half of its Officer Short-term incentives is a step in the right
6 direction, its inclusion of LTIP and any portion of the Executive Annual
7 Incentive Plan deviates from Commission policy as they are by design meant
8 to benefit shareholders.⁴⁰

9 **Q. Please summarize all of Staff's adjustments to Salaries, Wages, Overtime,**
10 **and Incentives.**

11 A. Staff proposes \$5.6 million of reductions to O&M and \$2.6 million to Capital
12 which includes reductions to:

- 13 • Wages & Salaries of \$28 thousand O&M and \$19 thousand Capital;
- 14 • Incentives of \$4.8 million in O&M and \$3.2 in Capital (Test Year);
- 15 • Overtime of \$544 thousand in O&M and \$365 thousand Capital;
- 16 • Officer Incentives in Plant of \$954 thousand Capital (from 2020 and
17 2021); and
- 18 • Smaller adjustments to payroll taxes (\$85 thousand) and depreciation
19 (\$113 thousand).⁴¹

³⁹ See *PGE*, Order No. 99-033 at 62; and *US West*, Order No. 97-171 at 74-76.

⁴⁰ NWN Natural Schedule 14A Proxy Statement, April 15, 2021,
<https://www.sec.gov/Archives/edgar/data/1733998/000119312521117464/d45834ddef14a>.

⁴¹ See Staff/604, Staff electronic work paper UG 435 Exhibit 604 Wage and Salary Model CONF.

Docket No: UG 435

Staff/600
Cohen/16

1

FIGURE 7: W&S ADJUSTMENTS

Description/ Account No.	Company-Wide				OR- Allocated	
	Company Filing	Staff	O&M Adjustment	Capital Adjustment	O&M Adjustment	Capital Adjustment
Wages & Salaries	\$ 106,060	\$ 106,013	\$ (28)	\$ (19)	(28)	(19)
FTE Adjustment	\$ 59,880	\$ 59,880	\$ -	\$ -	-	-
Incentives	\$ 11,748	\$ 3,739	\$ (4,789)	\$ (3,220)	(4,789)	(3,220)
Overtime	\$ 6,814	\$ 5,904	\$ -	\$ (366)	(544.14)	(365.80)
Payroll Taxes					(85)	
Depreciation O&M Adjustment Associated with Capital Adjustment					(113)	
Incentives in Plant						954
Total OR - Allocated Adjustments					(5,560)	(2,650)

2

3

4

5

6

7

8

Q. Does Staff have any further comments regarding executive compensation?

A. Staff is aware of public comments the Commission has received regarding executive compensation. Staff notes that the majority of executive compensation flows through Incentives which are 100 percent removed as per Commission policy.⁴²

⁴² NW Natural Schedule 14A Proxy Statement, April 15, 2021, See Summary Compensation Table, <https://www.sec.gov/Archives/edgar/data/1733998/000119312521117464/d45834ddef14a>.

Docket No: UG 435

Staff/600
Cohen/17

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

ISSUE 2. CUSTOMER ACCOUNT, CUSTOMER SERVICE AND SALES

EXPENSES

Q. Please describe customer account and customer service expenses.

A. Customer account expense is recorded in FERC accounts 901, 902, 903, 904, and 905. These accounts track expenses related to Supervision, Meter Reading, Customer Records and Collection, Uncollectibles, as well as Miscellaneous Customer Accounts. Customer Service expense is recorded in FERC accounts 907, 908, and 910 (excluding 909 Informational and Instructional Advertising Expenses, which was analyzed separately). These expenses are for Supervision, Customer Assistance, and Miscellaneous Customer Service. Uncollectibles and Advertising have been reviewed separately in Staff/200/Fjeldheim and Staff/1000/Jent. Finally, FERC accounts 911-917 are comprised of other Advertising, Demonstration and Selling, and Misc. Sales Expenses.

Q. Does the Commission Staff have a standard for how Customer Account, Customer Service and Sales expenses are treated for ratemaking purposes?

A. Rule 860-026-0020 Standards Governing Promotional Activities and Concessions mandates that all promotional activities be just, reasonable, prudent, economically feasible and beneficial to both the utility and its customers. Sales and marketing (including advertising) expenses are prohibited from being posted in customer account or customer service expenses in keeping with Order No. 99-033. Sales and Marketing Costs

Docket No: UG 435

Staff/600
Cohen/18

1 must demonstrate reasonableness and consumer benefits to be present in
2 rates.⁴³

3 Staff reviews expenses per appropriate use per FERC account. Staff
4 also reviews transaction-level data to ensure expenses relate to activities such
5 as responding to customer requests, inquiries, and safety concerns, resolving
6 customer complaints, extending service to new customers, and providing
7 information about safety and service issues.

8 **FIGURE 8: CUSTOMER ACCOUNT, SERVICES AND SALES 2020-TY**

FERC	FERC Category	OR -allocated 2020	OR -allocated 2021	2021-2020 % Change	OR -allocated Test Year	TY-2021 % Change
901	Supervision (of Customer Accounting and Collecting Activities)	1,730,217	1,848,583	7%	2,029,213	10%
902	Meter Reading Expenses	898,142	989,930	10%	1,083,393	9%
903	Customer Records and Collection Expenses	14,276,363	16,278,091	14%	17,329,108	6%
904	Uncollectible Accounts	687,610	881,776	28%	-	-100%
907	Supervision (Customer Service Activities)	-	-		-	
	Customer Accounts Expenses	17,592,332	19,998,380		20,441,714	
908	Customer Assistance Expenses	2,562,328	2,446,711	-5%	2,820,423	15%
909	Informational and instructional advertising expenses	2,082,809	2,758,377	32%	2,900,950	5%
910	Misc Customer Service and Information Expenses	239,215	154,485	-35%	201,346	30%
	Customer Service Expenses	4,884,352	5,359,573		5,922,720	
911	Sales Expenses Operation & Supervision	103,038	81,156	-21%	58,796	-28%
912	Demonstration and Selling Expenses	1,661,554	1,866,316	12%	2,052,618	10%
913	Advertising Expenses	428,108	556,553	30%		-100%
	Sales Expenses	2,192,700	2,504,026		2,111,413	

9
10 **Q. Please describe the Company's customer account and customer**
11 **service expenses in the Base Year and historically.**

⁴³ PGE, *supra*, Order 99-033 at 63.

Docket No: UG 435

Staff/600
Cohen/19

1 A. For Customer Account expenses (FERC accounts 901-905), the Company
2 reported a Base Year Oregon allocated total of approximately \$20 million,
3 which included \$13 million in labor costs.⁴⁴ When compared to 2020, most
4 expenses have increased in the Base Year.⁴⁵ The Company attributes these
5 increases to additional FTE and year over year increases in payroll for
6 Supervision and Meter Reading (901-902) as well as a \$2.3 million increase
7 by payment vendor Paymentus in Customer Records (FERC 903) which is
8 discussed in the Miscellaneous O&M section.⁴⁶ Fluctuations in Customer
9 Service Expenses (FERC 908-910) are attributed to non-payroll expenses
10 for postage, printing and professional services in Advertising (FERC 909) as
11 well as a decrease due to the addition of an automated process for handling
12 customer and supplier interactions in Misc. Customer Service (FERC 910).⁴⁷
13 Staff's examination of DR 153, which lists transactions from 2019-2021
14 confirms the above changes.

15 Sales Expenses & Supervision (FERC 911) saw a decrease of 21
16 percent, largely due to decreased payroll and overhead. Demonstration and
17 Selling Expenses (FERC 912) recorded increases, mainly due to Professional
18 Services, Dealer Relations, Corporate Identity and Other Contract Work. Staff
19 audited the expenses related to professional services, dealer relations,

⁴⁴ Staff/602, Cohen/5, NWN Response to Staff DR 276 Attach 1 and Attach 2 (electronic spreadsheets).

⁴⁵ Staff/602, Cohen/3, NWN Response to Staff DR 153 Attach 1 (electronic spreadsheet).

⁴⁶ Staff/602, Cohen/6, NWN Response to Staff DR 278.

⁴⁷ Ibid.

Docket No: UG 435

Staff/600
Cohen/20

1 corporate identity and other contract work. FERC account 913 is related to
2 advertising and is covered in Staff/1000/Jent.

3 **FIGURE 9: FERC 911 AND FERC 912 INCREASES 2020-BASE YEAR**

FERC 911	Cost element name	2020	2021	FERC 912	Cost element name	2020	2021
	CONFERENCE TRAVEL	84			PROFESSIONAL SERVICE	28,169	319,508
	DUES/MEMBERSHIP		882		SALARY REGULAR	740,508	813,717
	EMPLOYEE AWARDS	187	125		DEALER RELATIONS	28,148	95,690
	MEALS AND ENTERTAIN	75	24		CORPORATE IDENTITY	98,061	153,465
	NON EMPLOYEE GIFTS		74		OTHER CONTRACT WORK	5,620	33,227
	OFFICE SUPPLIES	80	49		REBATES	41,166	65,984
	P CARD UNCODED CHARG		-		MATERIALS	297	19,994
	PAYROLL OVERHEAD	34,235	27,439		MATERIALS - CONS INV		4,480
	SALARY BONUS PAYROLL	22			SMALL TOOLS		2,975
	SALARY PAYROLL	59,130	45,371				
	VACATION, SICK & HOL	9,224	7,193				

4 **Q. Does Staff have any adjustments to these accounts?**

5 **A.** Staff has several adjustments across FERC accounts 908 and 912, related
6 to the Base Year increases in Corporate Identity, Dealer Relations, and
7 Professional Services. Customer Assistance (FERC 908) Dealer Relations'
8 expense went up over eight-fold from 2020 to the 2021 base year (from \$5
9 thousand to \$45 thousand).⁴⁸ As branding and building industry events have
10 spurious benefits for consumers, Staff proposes the following adjustment of
11 (\$41,112) before escalation.⁴⁹

⁴⁸ Staff/602, Cohen/12, NWN Response to Staff DR 364 Attach 1 (electronic spreadsheet).

⁴⁹ *Ibid.*

Docket No: UG 435

Staff/600
Cohen/21

1

FIGURE 10: ADJUSTMENT TO FERC 908 DEALER RELATIONS

Cost element name	Purchase order text	Name of offsetting account	Fiscal Year	
			2020	2021
DEALER RELATIONS		A/P - CONCUR		3,718
		A/P ACCRUED INV	389	(4,832)
		AIR SUPPLY INC		2,678
		BRANDING PLUS LLC	194	
		BUILDING INDUSTRY ASSOCIATION		439
		DEFD REVENUE	1,054	
		FIRST CALL HEATING AND COOLING CO	176	
		GLAVIN DEVELOPMENT LLC	4,442	
		HOME BUILDERS ASSOCIATION		8,170
		JEFFREY TAMBURRO		367
		NORTHWEST NATURAL GAS CO		1,927
		PMT PROC CASH CLEAR	(878)	
		SPADA PROPERTIES INC		248
	2021 Bolt Branding Event	GR/IR		25,036
	Parade of Homes (2021)	GR/IR		7,467
			5,377	45,218
		Adjustment Amount before escalation		41,112

2

3

FIGURE 11: FERC 912 CORPORATE IDENTITY, DEALER RELATIONS & PROFESSIONAL SERVICES

4

Sum of OR Allocated		Fiscal Year	
FERC	Cost element name	2020	2021
912	CORPORATE IDENTITY	98,061	153,465
	DEALER RELATIONS	28,148	95,690
	PROFESSIONAL SERVICE	28,169	319,508
912 Total		154,378	568,664

5

6

7

8

9

10

In Demonstration and Selling Expense (FERC 912), cost elements such as Corporate Identity, Dealer Relations and Professional Services were responsible for most of the expense increases. Corporate identity is comprised of event sponsorships, sports sponsorship, home builder association events, block parties, shopping sprees, and trade ally appreciation events with the

Docket No: UG 435

Staff/600
Cohen/22

1 highest ticket items being a Timbers game and Thorns game as well as an
 2 event at the Lot at Zidell Yards.⁵⁰ Staff proposes a reduction of \$153,043
 3 thousand in base year Corporate Identity expense in FERC 912. Staff has
 4 excluded the \$422 of meals and entertainment adjustments proposed in this
 5 area in Staff/1200/Rossow.

6 **FIGURE 12: FERC 912 CORPORATE IDENTITY**

Sum of OR Allocated				Fiscal Year	
FERC	Cost element name	Purchase order text	2020	2021	
912	CORPORATE IDENTITY		67,033	37,132	
		2020 Bolt Safety Event	7,735		
		2020 Lane Cty Home Imprv Show		4,109	
		2021 Sponsorship The Lot at Zidell Yards		26,510	
		Thorns 2021		19,882	
		Timbers 2020 sponsorship	23,293		
		Timbers 2021		65,833	
		CORPORATE IDENTITY Total	98,061	153,465	
912 Total			98,061	153,465	
Sum of OR Allocated				Fiscal Year	
FERC	Cost element name	Document Header Text	Name	2021	
912	CORPORATE IDENTITY	Kloor:May expenses	door prize for golf	49	
			sponsorship of coffee cart		
912	CORPORATE IDENTITY	Nelson:Paul Willocks P-ca	at BIA Golf Tournament	374	
912 Total				422.78	
			Excluding ME adjustment	153,043	

7
 8 Items in Dealer Relations consist of sponsorships, galas, payments to the
 9 Home Builders Associations, home tours and other related activities.⁵¹ As
 10 ratepayers receive little benefit for these activities, Staff recommends a
 11 reduction of \$92,482 after excluding the \$3,207 of meals and entertainment
 12 adjustments in this area.

⁵⁰ Staff/602, Cohen/12, NWN Response to Staff DR 364 Attach 1 (electronic spreadsheet).

⁵¹ Ibid.

Docket No: UG 435

Staff/600
Cohen/23

1

FIGURE 13: FERC 912 DEALER RELATIONS

Sum of OR Allocated			Fiscal Year	
FERC	Cost element name	Purchase order text	2020	2021
912	DEALER RELATIONS		22,401	73,121
		2021 Gala & Auction - HBF		5,744
		2021 Sponsorship The Lot at Zidell Yards		8,837
		HBA - Invoices for 2019 Sponsor/Events	5,525	
		HBA Q3 Sponsorship		5,744
		Temporary workers	223	2,245
		DEALER RELATIONS Total	28,148	95,690
912 Total			28,148	95,690

Sum of OR Allocated			Fiscal Year	
FERC	Cost element name	Purchase order text	2020	2021
912	DEALER RELATIONS			
		Charity Contribution		44.14
		ORACCA Golf dinner		714.69
		Salem HBA Golf lunch		440.39
		Sponsorship for NARI Annual Golf Tournament		397.65
		Trade Ally appreciation		768.78
	Temporary			
	workers	Catering salem golf		168.25
		Labor salem golf		673.61
912 Total				3,207.52

Excluding ME adjustment				92,482.67
-------------------------	--	--	--	------------------

2

3

4

5

Finally, after reviewing expenses in Professional Services in FERC 912, Staff recommends the removal of all expenses related to branding or furnace campaigns, or \$262 thousand before escalation.

Docket No: UG 435

Staff/600
Cohen/24

1

FIGURE 14: FERC 912 PROFESSIONAL SERVICES

Sum of OR Allocated		Fiscal Year	
FERC	Cost element name	2020	2021
912	PROFESSIONAL SERVICE	28,169	19,136
	2021 Bolt Branding Event		42,463
	2021 Fall Furnace Campaign		49,103
	2021 Fall Hearth Campaign		38,581
	2021 Summer FAU Campaign		42,079
	2021 Winter Furnace Campaign		51,981
	2021 Winter Hearth Campaign		38,342
	Add'l fund needed for diff in amt needed		-
	Add'l funds for amended SOW		2,079
	Staffing Srv - Stephanie Frisch		10,773
	Staffing Srv - Stephanie Frisch continue		13,189
	Staffing Srv-Frisch August		11,488
	Temporary workers		294
	PROFESSIONAL SERVICE Total	28,169	319,508
	Adjustment before escalation		262,549

2

3

Q. What are Staff’s final adjustments to Customer Assistance and Demonstration and Selling Expenses?

4

5

A. After escalating the adjustments by the All-Urban CPI for 2022 and 2023,

6

Staff’s proposal is to remove \$584,841 in the Test Year from Customer

7

Assistance Expenses (FERC 908) and Demonstration and Selling Expenses

8

(FERC 912) as detailed below.

9

Q. Why does Staff propose to escalate Base Year expenses by the All-Urban CPI?

10

11

A. The Commission has a long history of relying on the All-Urban CPI and Staff

12

uses it almost invariably to escalate costs in a general rate case. As the

13

Commission has noted, “the All-Urban CPI measures price changes in a fixed

14

market basket of goods and services in 200 categories, generally including

Docket No: UG 435

Staff/600
Cohen/25

1 housing, apparel, transportation, medical care, recreation, education, and
2 others to urban consumers.”⁵² “Local economic conditions are represented in
3 the All-Urban CPI, as the Bureau of Labor Statistics includes prices in Oregon
4 when it conducts its survey.”⁵³

5

6

⁵² *Northwest Natural*, Order No. 99-697, p. 37, n10.

⁵³ *Ibid.*, p. 38.

Docket No: UG 435

Staff/600
Cohen/26

1

FIGURE 15: ADJUSTMENTS WITH ESCALATION

<u>Account</u>	<u>Adjustments</u>	<u>2021</u>	<u>2022</u> <u>CPI-U</u>	<u>2023</u> <u>CPI-U</u>
			4.2%	2.2%
908	Dealer Relations	41,112	42,839	43,781
912	Corporate Identity	153,043	159,471	162,979
912	Dealer Relations	92,482	96,366	98,486
912	Professional Services	262,549	273,576	279,595
			Total	584,841

2

Docket No: UG 435

Staff/600
Cohen/27

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

ISSUE 3. MISCELLANEOUS O&M EXPENSE INCREASES

Q. Please explain the Company's individual increases to O&M.

A. The Company lists several items that were not escalated by the CPI but by expected increases in contract costs. Staff reviewed Company work papers and contracts to ensure these costs were appropriately estimated. Staff examined the following expenses:

Paymentus: An increase of \$57 thousand (Oregon) due for electronic bill payment services. Accordingly, test year transactions are expected to grow by 4.5 percent annually.⁵⁴ The Company trended total payment volume based on customer growth rate as well as a bankcard usage rate of 34 percent.⁵⁵

Locating, Inc.: An increase of \$807 thousand (Oregon) based on increased prices per locate (2.25 percent in 2022 and 10 percent in 2023) as well as a 4.5 percent annual growth increase in the number of locating units.⁵⁶

Heath Consultants: The contractual rate per foot of inspection for the survey service will increase 2 percent annually throughout the three-year contract. There is also a projected 25 percent increase in unit cost starting in 2023 due to rising labor costs. The combined effect is an increase of \$223 thousand (Oregon). In addition, the Company is required to inspect its Business Districts annually per the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration. Business Districts

⁵⁴ NW Natural/1200, Davilla/11.
⁵⁵ Staff/602, Cohen/2, NWN Response to DR 143 Attach 1 (electronic spreadsheet).
⁵⁶ Staff/602, Cohen/9, NWN Response to Staff DR 352 Attach 2 (electronic spreadsheet).

Docket No: UG 435

Staff/600
Cohen/28

1 are gas mains or services where the public regularly congregates. Heath
2 Consultants has projected an increase of \$1.4 million (Oregon) related to
3 the necessary inspections.⁵⁷

4 The Company also has projected an increase of \$226 thousand in
5 severance based on a three-year average (2019-2021).⁵⁸ Finally, the
6 Company is including \$1.9 million in stock expense as well as \$2.3 million of
7 Long-Term Incentive Plan.⁵⁹ These items have been discussed in the
8 Wages, Salary, and Incentive section.

9 **Q. Does Staff have any adjustments in this area?**

10 A. Staff does not have any adjustments.

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

12 A. Yes.

⁵⁷ NW Natural/1200, Davilla/11.

⁵⁸ Staff/603, NWN CONF Response to Staff DR 356 Attach 1 (electronic spreadsheet).

⁵⁹ NW Natural/1200, Davilla/17.