



# Oregon

Tina Kotek, Governor

**Public Utility Commission**

201 High St SE Suite 100

Salem, OR 97301-3398

**Mailing Address: PO Box 1088**

Salem, OR 97308-1088

503-373-7394

July 29, 2024

***Via Electronic Filing***

OREGON PUBLIC UTILITY COMMISSION ATTENTION: FILING CENTER  
PO BOX: 1088  
SALEM OR 97308-1088



**RE: Docket No. UG 490 – In the Matter of NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL, Request for a General Rate Revision.**

Enclosed for filing please find Staff Amended Rebuttal Testimony which adds Curtis Dlouhy as a sponsor of Staff Exhibit 4100.

*/s/ Mark Brown*

Mark Brown  
Oregon Public Utility Commission  
(971) 375-5080  
mark.brown@puc.oregon.gov

CASE: UG 490  
WITNESS: ERIC SHIERMAN  
CURTIS DLOUHY

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 4100**

**AMENDED  
Rebuttal Testimony**

**July 29, 2024**

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

2 A. My name is Eric Shierman. I am a Senior Utility Analyst employed in the  
3 Energy Resources and Planning Division of the Public Utility Commission of  
4 Oregon (OPUC).

5 My name is Curtis Dlouhy. I am a Senior Economic and Policy Analyst in  
6 the Strategy and Integration Division of the OPUC. Our business address is  
7 201 High Street SE, Suite 100, Salem, Oregon 97301.

8 **Q. Have you previously provided testimony in this case?**

9 A. Yes. See our Opening Testimonies in Exhibit Staff/1800 and Exhibit Staff/900,  
10 and our Witness Qualifications Statements in Exhibit Staff/1801 and Exhibit  
11 Staff/901.

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

13 A. Our testimony responds to intervenors' Opening Testimonies and the  
14 Company's Reply Testimony on the marginal cost study, rate spread, and rate  
15 design.

16 **Q. Did you prepare any exhibits for this docket?**

17 A. No.

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

19 A. Our testimony is organized as follows:

20	Issue 1. Marginal Cost Study .....	2
21	Issue 2. Rate Spread .....	10
22	Issue 3. Rate Design.....	18

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

**ISSUE 1. MARGINAL COST STUDY**

**Q. Where can the discussion of the Company’s marginal cost study be found?**

A. NW Natural provided its marginal cost study, also referred to as the Long-Run Incremental Cost Study (LRIC), in NW Natural/1800, Wyman/26-60. The Company’s position and arguments in relation to the LRIC, including responses to other parties on this same issue, can also be found in NW Natural’s Reply Testimony, NW Natural/3900, Wyman/10-23.

**Q. Does the Company make any changes to its LRIC in Reply Testimony?**

A. No. However, the Company reaffirms that it made incremental changes to the LRIC between UG 435 and this rate case and responds to Staff’s and intervenors’ Opening Testimonies.

**Q. Please summarize the Company’s LRIC study.**

A. The LRIC study apportions the incremental revenue requirement to rate schedules based on each schedule’s marginal cost to serve. This theoretical model evaluates how much of the Company’s incremental capital investment, carrying costs, operations, and other expenses required to serve NWN’s customers can be directly and indirectly attributable to each rate schedule. The LRIC apportions the Company’s storage, transmission, and distribution costs, as well as operating expenses based on cost causation for the Test Year ending on October 31, 2025.

**Q. Did Staff have any adjustments to the LRIC study in Opening Comments?**

A. No.

1 **Q. Did any stakeholders argue for adjustments to the LRIC study?**

2 A. Yes. AWEC questioned three modeling choices in the LRIC study. Namely,  
3 AWEC pushes back against the following modeling choices:<sup>1</sup>

4 1. The Company's choice to use a "peak and average" allocation method  
5 rather than an "average and excess" allocation method.

6 2. The 50 percent demand discount for interruptible rate schedules for some  
7 investments. AWEC argues that this does not reflect the system benefit  
8 provided or risk taken by the interruptible customers, and that interruptible  
9 customers should be credited with a 100 percent discount for demand  
10 investments.

11 3. A service line allocation methodology that AWEC believes treats small  
12 and large customers inconsistently.

13 **Q. Did the Company find AWEC's arguments about the "peak and average"**  
14 **vs. "average and excess" methods persuasive?**

15 A. No. As pointed out in their Reply Testimony, the Company states that it uses  
16 both the "peak and average" methodology and the "average and excess"  
17 methodology. While the Company agrees with AWEC's claim that the "peak  
18 and average" method fails to properly capture cost causation in isolation, the  
19 Company reiterates that it uses both methods.<sup>2</sup>

20 **Q. What is Staff's response to AWEC's and the Company's testimonies?**

---

<sup>1</sup> AWEC/100, Mullins/43-46.

<sup>2</sup> NW Natural/3900, Wyman/15-16.

1 A. Staff is uncompelled by AWEC’s insistence on using the “average and excess”  
2 methodology, exclusively. Like the Company, Staff recognizes the  
3 shortcomings of the “peak and average” method but believes that the  
4 combination of two methods used by the Company better aligns cost causation  
5 than AWEC’s proposal.

6 **Q. Was the Company persuaded by AWEC’s argument that interruptible**  
7 **customers should receive a 100 percent credit for demand investments**  
8 **and that more investments should be considered for the discount?**

9 A. In part, however the Company states that it believes its current methodology is  
10 appropriate.<sup>3</sup> The Company agrees that interruptible customers provide a  
11 system benefit but notes that not all the benefits from interruptible customers  
12 arise from demand response events.<sup>4</sup> Although the Company states that it  
13 believes its current method is appropriate, it is open to refinements to the LRIC  
14 study in the future.

15 The Company is also amenable to including a demand discount to Dist-1  
16 investments and intends to implement this change in the next LRIC study.<sup>5</sup>

17 **Q. How does Staff respond to the interruptible customer demand discount**  
18 **and asset allocation issues?**

19 A. While Staff is open to refinements to the LRIC and further discussion about the  
20 system value of interruptible customers, Staff agrees with the Company that  
21 the current methodology is appropriate for this rate case. Staff believes that

---

<sup>3</sup> NW Natural/3900, Wyman/19.

<sup>4</sup> NW Natural/1900, Wyman/18-19.

<sup>5</sup> NW Natural/1900, Wyman/22.

1 unless interruptible customers are curtailed or shift their load in such a way that  
2 they do not contribute to *any* above-average load, interruptible customers are  
3 causing some level of demand investment. As such, Staff finds AWEC's  
4 proposal for a 100 percent demand discount to interruptible customers  
5 inappropriate.

6 Staff supports further study of the resource value of interruptible  
7 customers that NWN suggested in Reply Testimony, such as using the IRP to  
8 identify the marginal cost of interruptible customers. Notably, AWEC did not  
9 provide evidence of this resource value in this docket. AWEC merely asserts  
10 "customers that choose to take services on interruptible schedules are fully  
11 interruptible, not fifty percent interruptible."<sup>6</sup> This is not quite true. These  
12 customers are not fully interrupted. They are not even interrupted half of the  
13 time. In fact, interruptible customers are rarely interrupted. By virtue of  
14 identifying as an interruptible customer while having few interruptions in  
15 practice, interruptible customers may benefit from NWN building out a system  
16 that is so risk intolerant that interruptible customers can be free riders on the  
17 low probability of unserved energy.

18 Staff agrees with the Company and AWEC that Dist-1 costs may be  
19 eligible for inclusion in the interruptible demand discount. However, as the  
20 Company notes, this change creates very little movement in the LRIC. Staff  
21 reiterates that the LRIC is an imprecise model rather than an entirely  
22 unimpeachable product. Further, small refinements would require significant

---

<sup>6</sup> AWEC/100, Mullins/45-46.

1 process to integrate as a part of this proceeding and result in minimal impacts  
2 to perceived parity. Thus, Staff believes these changes may be more  
3 reasonably incorporated collectively in a future LRIC study. As the Company  
4 points out, the main driver of the differences between AWEC's and the  
5 Company's LRIC model comes through AWEC's questionable proposal to  
6 apply a 100 percent demand discount, which the Company and Staff both  
7 oppose. Given Staff's opposition to the interruptible demand discount proposal  
8 by AWEC and concerns regarding the optimal timing for the smaller  
9 refinements, Staff believes that it is appropriate to accept the Company's  
10 current LRIC study in this rate case.

11 **Q. How does the Company respond to AWEC's feedback on the inconsistent**  
12 **allocators?**

13 A. The Company is sympathetic to the concerns brought up by AWEC about  
14 inconsistent allocation factors and offers to change its next LRIC filing.<sup>7</sup> The  
15 Company also reiterates that implementing this change provides little  
16 directional movement to the current LRIC.<sup>8</sup>

17 **Q. Does Staff support the Company's decision to wait until the next LRIC to**  
18 **implement this change to allocation factors?**

19 A. Yes. Staff agrees that the change in the allocation factor methodology and the  
20 changes to everything but the 50 percent demand discount result in  
21 quantitatively small deviations from the current LRIC. As stated previously,

---

<sup>7</sup> NW Natural/3900, Wyman/21.

<sup>8</sup> NW Natural/3900, Wyman/22.

1 Staff believes that an LRIC study is inherently imprecise and used as an  
2 indicative assignment of costs rather than an airtight assignment of costs in a  
3 rate case. Further, as alluded to earlier, Staff recognizes that modifying the  
4 LRIC during a rate case can be a time intensive process with many  
5 downstream effects. Since the majority of these changes lead to relatively  
6 small changes in the LRIC study results, Staff believes it is reasonable to  
7 accept the Company's LRIC as filed and consider the implementation of these  
8 small incremental changes as part of the LRIC study in a future rate case.

9 **Q. Has Staff changed its position on the LRIC in this rate case?**

10 A. No. While Staff supports some of AWEC's concerns about the marginal cost  
11 study such as the classification of assets and employing a consistent service  
12 line allocation methodology, Staff fundamentally disagrees with AWEC's  
13 arguments about the resource value of interruptible customers. Given that all  
14 issues except the value of the interruptible demand discount led to  
15 quantitatively small changes with limited value to warrant integration at this  
16 stage of the particular proceeding, Staff continues to recommend that the  
17 Company's marginal cost study be accepted in this rate case. However, Staff  
18 would clarify that it does not oppose implementing changes to the service line  
19 allocation and demand-related assets in a future rate case filing.

20 **Q. Does Staff have any recommendations about items that the Company**  
21 **should consider for its LRIC in a future filing?**

22 A. Yes. Staff notes that the LRIC study as it is currently structured only considers  
23 direct system costs without any consideration for equity or energy justice

1 concerns. Staff recommends that the Company incorporate these concerns  
2 into the LRIC study with its next general rate case. In particular, Staff  
3 recommends the Company incorporate societal impacts of pollution associated  
4 with natural gas use or various rate proposals into the LRIC. Staff does not  
5 view this as an exhaustive list and also recommends that the Company work  
6 with environmental justice stakeholders to consider other factors to include in a  
7 future LRIC.

8 **Q. Why does Staff believe that environmental justice concerns or rate**  
9 **proposals may contribute to marginal costs in the LRIC?**

10 A. Staff notes that various environmental or rate proposals may lead to costs that  
11 are spread among all customers but not captured by the LRIC. As an example,  
12 Staff notes that exceptionally high residential rates may lead to higher rates of  
13 disconnections or bad debt, which ultimately affects the utility's actual net  
14 income. While Staff does not have a sense of the scale of this particular  
15 example or other ways in which rate spread, rate design, or other  
16 environmental or energy justice concerns may impact the Company's LRIC,  
17 Staff believes it to be important to attempt to quantify and incorporate them  
18 with a diverse group of stakeholders.

19 **Q. What does Staff believe that the effect of implementing environmental**  
20 **justice concerns be on the LRIC?**

21 A. While it is difficult to quantify the effects of implementing environmental  
22 justice-related costs into the LRIC, at this time Staff expects that the clearest  
23 effect would be to increase the social per-therm cost of gas. In effect, Staff

1        expects that this new LRIC study would indicate that larger users are closer to  
2        parity than they are currently portrayed.

**ISSUE 2. RATE SPREAD**

1  
2 **Q. Please describe Staff's Opening Testimony on rate spread.**

3 A. In Opening Testimony, Staff expressed its desire to balance fairness and rate  
4 shock with cost parity. In this pursuit, Staff testified that it felt the Company's  
5 proposed rate spread did not fairly spread the costs of this large rate increase  
6 among all customer classes.<sup>9</sup> As an alternative to balance these concerns,  
7 Staff proposed to use the Company's starting methodology, and modify it so all  
8 customer classes would bear at least 75 percent of the average cost  
9 increase.<sup>10</sup> While this produced a trivial move away from parity, Staff felt that  
10 this more fairly balanced concerns of rate shock, cost causation, and fairness  
11 than the Company's initial proposal.

12 **Q. Does the Company provide an update to its rate spread methodology in**  
13 **its Reply Testimony?**

14 A. No. The Company maintains its position and states that its proposal is a  
15 middle ground between all parties and "is the only proposal that equitably  
16 distributes the incremental revenue requirement such that the rate classes as a  
17 whole are moved closer to parity based on their indicated cost causation (i.e.,  
18 incrementalism) but does so in a manner that works to minimize rate shock."<sup>11</sup>

19 **Q. How did the Company respond to Staff's proposal?**

20 A. The Company brings up the following arguments:

---

<sup>9</sup> Staff/1800, Shierman/13.

<sup>10</sup> Staff/1800, Shierman/13.

<sup>11</sup> NW Natural/3900, Wyman/88.

- 1       • Staff's proposal violates the principle of incrementalism and is inequitable  
2       to RS 31 (Non-Residential Firm Sales and Firm Transportation Service)  
3       and 32 (Large Volume Non-Residential Sales and Transportation Service)  
4       rate classes because it would move these schedules whose parity ratios  
5       at current rates are well above 1.00 to even further away from 1.00, not  
6       closer.
- 7       • Similarly, Staff's proposal increases rates for many rate schedules in the  
8       RS 31 and 32 rate classes by more than an equal percent of margin.<sup>12</sup>
- 9       • Staff only considers the total revenues and does not consider that the  
10      Company's proposal requests a 20.3 percent margin revenue increase for  
11      the same schedules Staff discusses.
- 12      • Staff's proposal would push the parity ratio higher with a 50.4 percent  
13      margin revenue increase (where a 29.3 percent margin revenue increase  
14      would simply maintain the 1.91 parity ratio at proposed rates).
- 15      • Staff's proposal in addressing the concern for fairness adjusts the spread  
16      for RS 2 (Residential) just slightly downward resulting in a \$0.96 (or  
17      roughly one percent) reduction in an average residential monthly bill.

18      **Q. Why does Staff disagree with the Company's proposal?**

19      A. The Company appears to have missed the key reason that Staff is comfortable  
20      with the move away from parity and ignores some of its own reasoning in  
21      determining rate spread. Namely, as Staff noted in Opening Testimony:

---

<sup>12</sup> NW Natural/3900, Wyman/Page 84.

- 1       • The Company states that relying entirely on parity may be suboptimal.<sup>13</sup>  
2       Therefore, parity according to the LRIC study should not necessarily be  
3       the sole, or even primary, objective of a designed rate spread in every  
4       case.
- 5       • There is often disagreement in how the LRIC study should be conducted  
6       and the LRIC study may fail to account for disparities in system benefits  
7       received by customer groups.<sup>14</sup>

8       **Q. Does Staff still believe that relying solely on parity may be suboptimal?**

9       A. Yes. As pointed out in Staff's Opening Testimony, the Commission is  
10       statutorily authorized to consider equity and environmental justice concerns  
11       when determining rate spread.<sup>15</sup> This means that the Commission can  
12       consider factors outside of system costs—such as negative externalities,  
13       history of past harms, or incentives—when determining rate spread. It is  
14       Staff's belief that relying *only* on parity and prioritizing movement towards parity  
15       over all else unnecessarily hems in the Commission's ability to consider these  
16       other important factors. While Staff believes that an LRIC study can be  
17       improved and adapted between rate cases, Staff expects there will always be  
18       factors that are unmodeled in the LRIC study or outside policy concerns that  
19       necessitate deviating from the initial conclusions from an LRIC study.

20               From Staff's perspective, these realities require us to be more  
21       sophisticated in our evaluation of what is just, reasonable, and in the public

---

<sup>13</sup> Staff/1800, Shierman/9.

<sup>14</sup> Staff/1800, Shierman/6.

<sup>15</sup> Staff/1800, Shierman/7.

1 interest in rate setting, including decisions on rate spread. Now is the time to  
2 evolve the way these issues are considered and recognize that affordability  
3 should always have a role in developing and applying the results of ratemaking  
4 models.

5 **Q. Why do disagreements about the LRIC make Staff comfortable in**  
6 **recommending moves away from parity?**

7 A. As pointed out in Staff's Opening Testimony, there is not clarity about how to  
8 properly produce an LRIC model.<sup>16</sup> In fact, in this docket, AWEC has proposed  
9 drastic changes to the LRIC that entirely change the discussion about parity.<sup>17</sup>  
10 Staff finds AWEC's arguments unconvincing, but if they were believed, then  
11 one would expect that a move toward parity would necessarily mean no rate  
12 increases for any large industrial customers if one were to hold aside all  
13 relevant concerns about rate shock, equity, or environmental justice.

14 However, Staff notes that merely reframing a small portion of an LRIC  
15 study may entirely change the results. As an example, consider a 50 percent  
16 demand discount to reflect the system benefit of interruptible customers. As  
17 Staff pointed out earlier in this testimony, Staff believes the system value of  
18 interruptible customers is less than the 100 percent demand discount that  
19 AWEC recommends, but more than a 0 percent demand discount. The  
20 Company testifies—and Staff agrees—that this system benefit is hard to  
21 quantify.<sup>18</sup> So, one could feasibly argue that a five percent demand discount is

---

<sup>16</sup> Staff/1800, Shierman/7.

<sup>17</sup> AWEC/100, Mullins/44.

<sup>18</sup> NW Natural/3900, Wyman/20.

1 more appropriate than a 50 percent demand discount, which would in effect  
2 shift costs according to the LRIC onto large, interruptible customers and off  
3 smaller customers such as small commercial and residential customers.

4 Given this ambiguity, Staff believes that parity according to the LRIC  
5 should be viewed skeptically. While it is useful, treating the values as  
6 unimpeachable truths necessarily ignores all nuance in method choices or  
7 issues that may live outside the LRIC.

8 **Q. What issues outside the LRIC does Staff believe should inform rate**  
9 **spread?**

10 A. Staff notes that the current LRIC study fails to account for many environmental  
11 justice or equity concerns, such as human health impacts of large natural gas  
12 customers or the societal costs of various rate proposals. Similarly, an  
13 unadulterated application of the LRIC study excludes the important  
14 considerations of affordability and energy security. Without widening the  
15 aperture of the LRIC and rate spread discussions to include degrees of social  
16 and human impacts, the tool inappropriately biases ratemaking decisions  
17 toward recovery of system costs through a utility lens.

18 While Staff recommends that the Company make a concerted effort to  
19 work with Staff and stakeholders to integrate these issues as well as other  
20 environmental justice concerns into a future LRIC study, Staff believes that  
21 these issues remain salient enough that it is worth treating parity according to  
22 the LRIC study solely as an indicator. As Staff has discussed in the previous  
23 section, Staff expects that the effect of these changes would likely indicate that

1 the highest-usage customers are responsible for more costs than are currently  
2 reflected in the LRIC.

3 **Q. Have any other intervenors also proposed their own rate spread**  
4 **proposals?**

5 A. Yes, AWEC presented its rate spread proposal in Opening Testimony. Along  
6 with a presentation of its own rate spread proposal, AWEC stated that the  
7 Company's rate spread proposal is too complicated and applies different  
8 treatment to similarly situated rate schedules using caps and floors that are  
9 applied on an ad hoc basis to different rate schedules at differing levels.<sup>19</sup>

10 **Q. What is AWEC's alternative rate spread proposal?**

11 A. AWEC proposes a "customer impact offset equal to 1.3 times the average rate  
12 increase to mitigate the increase to high impacts rate schedules and a uniform  
13 floor at zero percent."<sup>20</sup>

14 **Q. What are the Company's concerns regarding AWEC's proposal?**

15 A. The Company begins by saying that AWEC does not provide information on  
16 how the 1.3 value is calculated.<sup>21</sup> Second, NW Natural says that AWEC  
17 applies a zero floor that results in no increase for all rate schedules in the  
18 RS 31 and 32 rate classes plus RS 3 (Basic Firm Sales Service Non-  
19 Residential), whereas the Company's rate spread had revenue increases  
20 ranging from 3.6 to 14.7 percent. Third, AWEC's own LRIC study indicates  
21 these two rate schedules, RS2 (Residential Sales Service) and RS 32, are

---

<sup>19</sup> AWEC/100, Mullins/47.

<sup>20</sup> AWEC/100, Mullins/48.

<sup>21</sup> NW Natural/3900, Wyman/85.

1 overpaying. Fourth, the Company believes that AWEC does not explain why it  
2 reallocates the rate spread such that RS2 receives an increment at 1.07 times  
3 the overall margin revenue increase while giving RS 3 an increase of  
4 1.27 times.

5 **Q. What is Staff's position on AWEC's alternative rate spread proposal?**

6 A. Staff feels the need to reiterate that AWEC's rate spread proposal is based on  
7 an LRIC analysis that both Staff and the Company believe is flawed. Given  
8 Staff's view that the LRIC undervalues environmental justice concerns in a way  
9 that would likely shift costs onto larger industrial customer if properly  
10 incorporated, Staff finds that AWEC's rate spread proposal that in effect leads  
11 to no increase to *any* schedule except residential and small commercial is  
12 entirely inappropriate and likely fails to move costs closer to true parity.

13 **Q. Does Staff agree with the principle of AWEC's choice of a zero floor and**  
14 **cap of 1.3 times the average increase?**

15 A. No. In justifying this set of caps and floors, AWEC harkens back to an Avista  
16 rate case from ten years ago, UG 284.<sup>22</sup> While Staff believes that AWEC's  
17 strategic omission of any rate proceeding in the last decade could be reason  
18 enough to dismiss AWEC's precedent, Staff still feels the need to highlight two  
19 important changes between UG 284 and this rate case.

20 First, in UG 284, the total impact on Oregon's revenues was a  
21 4.9 percent, whereas in this docket the Company's revenue requirement  
22 increase is more than triple that amount at 16.7 percent in their initial filing.

---

<sup>22</sup> AWEC/100, Mullins/48.

1 Second, as pointed out in Staff Opening Testimony and across many other  
2 dockets, of which AWEC is aware, Staff has long advocated for tighter rate  
3 spreads when faced with large cost increases.<sup>23</sup>

4 **Q. Does Staff have an update to its rate spread methodology after reading**  
5 **other parties' testimonies?**

6 A. No. Staff finds that its rate spread proposal in Opening Testimony sufficiently  
7 and more effectively balances concerns about parity with rate shock and  
8 environmental justice than the proposals from the Company or AWEC. While  
9 rate spread requires some judgment calls and there are degrees of merit to the  
10 Company's proposal, Staff believes that its Opening Testimony proposal most  
11 fairly spreads out the rate increase across schedules.

---

<sup>23</sup> Staff/1800, Shierman/14.

**ISSUE 3. RATE DESIGN**

1  
2 **Q. Please summarize Staff's Opening Testimony on the Company's rate**  
3 **design proposals?**

4 A. Staff's Opening Testimony argued the following positions regarding NW  
5 Natural's rate design proposals:

- 6 • Staff did not oppose the Company's proposal to bifurcate the single-family  
7 and multi-family charges, or the Company's proposal to raise the single-  
8 family customer charge to \$10 per bill.<sup>24</sup>
- 9 • Staff opposed the Company's proposal to implement a New Premises  
10 Customer Charge that adds an additional \$16.25 per bill for all new  
11 premises residential as of November 1, 2024, for an effective \$26.25  
12 customer charge on all "New Premises" customers. Staff believed that  
13 the New Premises Customer Charge was an inequitable and deceptive  
14 charge that did not appropriately address issues related to disparate  
15 usage and unfairly distinguished customers by their status as new or  
16 existing customers.<sup>25</sup>

17 **Q. How did other intervenors respond to the Company's rate design**  
18 **proposals?**

19 A. Staff was the only party to weigh in on the Company's single family  
20 customer charge proposal in Opening Testimony. However, CUB also  
21 expressed support for the multi-family customer charge.<sup>26</sup>

---

<sup>24</sup> Staff/1800, Shierman/1800.

<sup>25</sup> Staff/1800, Shierman/20-22.

<sup>26</sup> CUB/200, Garrett/10.

1 CUB and the Coalition joined Staff in opposition to the New Premises  
2 Customer Charge. CUB points out that a new customer would expect to pay  
3 approximately 51 percent more than an existing customer under the  
4 Company's proposal.<sup>27</sup> CUB also expresses its belief that the New  
5 Premises Customer Charge is discriminatory and creates intra-class equity  
6 concerns.<sup>28</sup>

7 The Coalition brings up similar concerns about a higher charge hurting  
8 lower income and energy burdened customers.<sup>29</sup> The Coalition also asserts  
9 that the New Premises Customer Charge decreases incentives for energy  
10 efficiency, disproportionately affects lower-income households, is duplicative  
11 with the Company's decoupling proposal, and sends conflicting signals to  
12 homebuilders and renters who purchase energy efficient appliances.<sup>30</sup> In their  
13 extensive testimony on decoupling, Line Extension Allowances, and the New  
14 Premises Customer Charge, the Coalition states that the Company could  
15 modify its expected use-per-customer in the decoupling mechanism to account  
16 for the impacts of new premise residential customers.<sup>31</sup>

17 **Q. How did the Company respond to Staff's Opening Testimony on the**  
18 **New Premises Customer Charge?**

---

<sup>27</sup> CUB/200, Garrett/8.

<sup>28</sup> Id.

<sup>29</sup> Coalition/100, Cebulko/53.

<sup>30</sup> Coalition/100, Cebulko/48-49.

<sup>31</sup> Coalition/100, Cebulko/52.

1 A. In response to Staff's inquiry into the distribution of environmental justice  
2 concerns related to the New Premises Customer Charge,<sup>32</sup> the Company  
3 provided a summary of the relationship between new premises customers  
4 and expected household income.<sup>33</sup> Many of Staff's other concerns overlap  
5 with concerns brought up by CUB and the Coalition.

6 **Q. What are the key takeaways from the Company's demographic analysis**  
7 **of new premises customers?**

8 A. The Company analyzes new connections from 2018 to 2023. At a high  
9 level, they found that 92.7 percent of these dwellings were single-family  
10 homes, 78.4 percent were new construction, the rate of bill discount  
11 program participation was approximately half of the Company's service  
12 territory participation rate, and the household income is on average higher  
13 than median.<sup>34</sup>

14 **Q. How does Staff respond to this analysis?**

15 A. Staff appreciates the Company's examination of recent new-customer  
16 connections. While the Company's results tend to indicate that recently  
17 connected customers are higher income, Staff notes that there is substantial  
18 heterogeneity in the residential customer class, as evidenced by the  
19 proportion of customers in this group that receive bill assistance. Although  
20 the Company's findings indicate a tendency towards single family  
21 residences with above-median income, Staff is still concerned that the

---

<sup>32</sup> Staff/300, Scala/19.

<sup>33</sup> NW Natural/3900, Wyman/73.

<sup>34</sup> NW Natural/3900, Wyman/42-43.

1 inequitable treatment of customers based on the vintage of their homes may  
2 further exacerbate energy burden on low-income customers that choose to  
3 move to new premises. Further, the Portland Housing Bureau, as of  
4 February 2023, had identified roughly 2,200 affordable units in the  
5 construction pipeline.<sup>35</sup> While it is unclear how many of these units would  
6 ultimately be connected to NW Natural's system, it is clear there may be an  
7 influx in lower income customers in new premises in the near future.

8 **Q. How does the Company respond to parties' Opening Testimonies on**  
9 **the New Premises Customer Charge?**

10 A. The Company points out a perceived methodological error in CUB's  
11 assessment of the incremental costs to new premises customers.  
12 According to the Company's analysis, a new premises customer would  
13 expect to pay 24.3 percent more than an existing premises customer.<sup>36</sup> The  
14 Company also rebuts the intra-class equity concerns brought up by CUB,  
15 stating that New Premises customers are on average higher income, lower  
16 usage, and less likely to be enrolled in the bill discount program.<sup>37</sup>

17 In response to the Coalition, the Company states that the New Premises  
18 charge will largely affect new single-family homes,<sup>38</sup> which are generally higher  
19 income,<sup>39</sup> lower-income households may experience lower winter bills and will

---

<sup>35</sup> See <https://public.tableau.com/app/profile/portland.housing.bureau/viz/BudgetLOSPipeline-2023/Dashboard2>.

<sup>36</sup> NW Natural/3900, Wyman/48.

<sup>37</sup> NW Natural/3900, Wyman/52.

<sup>38</sup> NW Natural/3900, Wyman/64-65.

<sup>39</sup> NW Natural/3900, Wyman/65.

1 be eligible for bill assistance,<sup>40</sup> the bifurcated decoupling mechanism does not  
2 alone address the intra-class subsidization,<sup>41</sup> the New Premises Customer  
3 Charge is about intra-class subsidization rather than fixed cost recovery,<sup>42</sup> and  
4 the IRA incentive program is not for customers living in newly constructed  
5 premises.<sup>43</sup> The Company repeatedly claims also that the Coalition's  
6 testimony misleadingly represents the New Premises Customer Charge as  
7 something that would affect existing customers.<sup>44</sup> Although the Company  
8 previously stated that new premises customers would pay more across the  
9 year, the Company's proposal would result in lower winter bills.<sup>45</sup>

10 To be clear, the New Premises Customer Charge would be applicable to  
11 any customer living in a home built after January 1, 2025. Staff makes this  
12 distinction as an "existing customer" currently on NWN's system could move  
13 into a newly constructed home and be subject to the New Premises Customer  
14 Charge.

15 **Q. How does Staff respond to intervenors' Opening Testimonies on this**  
16 **issue and the Company's response?**

17 A. Staff generally supports the points brought up by intervenors and believes that  
18 the Company's Reply Testimony misses some key nuances. As expressed in  
19 the testimony of Dr. Bret Stevens, Staff fundamentally disagrees with the

---

<sup>40</sup> Id.

<sup>41</sup> NW Natural/3900, Wyman/66.

<sup>42</sup> Id.

<sup>43</sup> NW Natural/3900, Wyman/67.

<sup>44</sup> NW Natural/3900, Wyman/71.

<sup>45</sup> NW Natural/3900, Wyman/61.

1 Company's assertion that the New Premises Customer Charge is necessary  
2 for the bifurcated decoupling mechanism to work properly. Staff also agrees  
3 with CUB's assertion that the New Premises Customer Charge is arbitrary and  
4 discriminatory, which Staff will expand upon later. Lastly, Staff disagrees with  
5 the Company's assertion that the New Premises Customer Charge is not about  
6 fixed cost recovery.

7 While the Company provides evidence that a low-income new premises  
8 customer under the proposed New Premises Customer Charge would have  
9 similar bills to an existing low-income customer, Staff believes this to be an  
10 improper comparison.

11 **Q. Does Staff's position on the New Premises Customer Charge conflict with**  
12 **Staff's position on bifurcating the decoupling mechanism?**

13 A. No. As Staff discussed in Opening Testimony, the decoupling mechanism  
14 proposal is meant to address an issue that is dependent on the customer  
15 connection date. In particular, Staff's decoupling mechanism proposal is  
16 accounting for the fact that new premises customers tend to consume less than  
17 existing customers and that their lower consumption is not taken into account  
18 when NWN calculates its decoupling revenues between rate cases. Staff  
19 argues that it is the *combination* of these issues that makes bifurcation on  
20 premises connection date in the decoupling proposal appropriate. However, in  
21 the Company's New Premises Customer Charge proposal, the Company is  
22 effectively trying to remedy a problem caused by differences in usage by usage  
23 by targeting the date a premises was connected to the system.

1 **Q. Does Staff believe that issues of intra-class subsidization are important?**

2 A. Of course. However, Staff notes that absent absolutely airtight assumptions in  
3 the LRIC study that lead to perfect assumptions about economically efficient  
4 fixed charges, volumetric charges, demand charge, and other possible  
5 programmatic charges, there will always be some level of intra-class  
6 subsidization in *every* customer class. While Staff believes it to be important to  
7 strive to solve these issues where appropriate, Staff believes it is equally  
8 important to advocate for rate designs that don't discriminate over arbitrary  
9 observables, such as the vintage of the dwelling.

10 **Q. Why does Staff believe the New Premises Customer Charge is a more**  
11 **arbitrary distinction than the single-family and multi-family customer**  
12 **charge bifurcation?**

13 A. Staff notes that a key distinction between a single-family and multi-family  
14 residence is the number of separately metered households at the same  
15 address. Absent substantial changes to the house's zoning or rebuilds that  
16 would essentially remake the house from the ground up, a dwelling's status as  
17 a single-family or multi-family residence is essentially fixed across time.

18 This is not the case with the Company's distinction between existing  
19 premises and new premises customers. As the Company repeatedly asserts,  
20 the choice to divide customers by vintage of their dwelling is based on the  
21 correlation of dwelling vintage to usage.<sup>46</sup> Usage, however, is not a fixed  
22 characteristic of a household. A homeowner or renter in an existing premises

---

<sup>46</sup> NW Natural/3900, Wyman/39-40.

1 can readily alter their usage, weatherize their home, or invest in energy  
2 efficient appliances to lower their usage in a way to make them functionally  
3 identical to a new premises customer with the same usage and load shapes.  
4 Thus, the new and old premises customers are causing the same costs to the  
5 system but are not being charged equivalently.

6 **Q. Why does Staff believe that it is improper to compare the bills for a**  
7 **new premises low-income customer with the bills for an existing**  
8 **low-income customer, as the Company does in its testimony?**<sup>47</sup>

9 A. While the Company states that a low-income customer would receive lower  
10 bills overall by moving to new premises, this entirely omits the bill difference  
11 between the low-income new-premises customer under the New Premises  
12 Customer Charge and under the proposed \$8 or \$10 customer charge. As the  
13 Company previously pointed out, for some customers, this could result in an  
14 increase in bills of 24.3 percent up to 37.0 percent more annually.<sup>48</sup>

15 The Company also repeatedly attempts to obfuscate the true impact of  
16 these bills on customers living in newly constructed premises by fixating on the  
17 effect of their proposal on winter bills rather than the overall bill impact.<sup>49</sup> While  
18 Staff is aware that winter bills may impose greater financial strain, Staff notes  
19 that creating savings in the winter at the expense of 24.3-37.0 percent higher  
20 overall annual bills does nothing to alleviate financial strain to energy burdened  
21 customers.

---

<sup>47</sup> NW Natural/3900, Wyman/74.

<sup>48</sup> NW Natural/3900, Wyman/47-48.

<sup>49</sup> NW Natural/3900, Wyman/74.

1 **Q. The Company notes that New Premises customers would still be**  
2 **eligible to receive energy assistance and bill discounts.<sup>50</sup> Does this**  
3 **alter Staff's thinking at all?**

4 A. Absolutely not. Staff is confused as to why Company would insinuate that Staff  
5 or other stakeholders were unaware that customers living in newly constructed  
6 premises would be eligible for assistance. Further, Staff notes that the  
7 Company highlights the 25 percent discount applied to Tier 1 bill discount  
8 customers.<sup>51</sup> By the Company's own calculations, at best this merely offsets  
9 the financial strain on New Premises low-income customer imposed by the  
10 New Premises Customer Charge.

11 **Q. Does Staff believe that the concern about different usage patterns is**  
12 **addressed with the Company's proposal to separate customers between**  
13 **new and existing premises as of November 1, 2024?**

14 A. No. In Opening Testimony, Staff highlighted that if the Company's aim were  
15 truly to bifurcate the customer class by usage, a more appropriate distinction  
16 would be 2018.<sup>52</sup> The Company was unreceptive to Staff's feedback on this  
17 point. Given that the Company was not receptive to changes to their  
18 decoupling mechanism to address the usage problem that it claims is  
19 addressed by the New Premises Customer Charge, Staff is skeptical that the  
20 Company's motive for the New Premises Customer Charge is truly intra-class  
21 subsidization.

---

<sup>50</sup> NW Natural/3900, Wyman/74.

<sup>51</sup> NW Natural/3900, Wyman/75.

<sup>52</sup> Staff/1900, Stevens/23.

1 **Q. If Staff is skeptical that the Company's motivation for the New**  
2 **Premises Customer Charge is intra-class subsidization, what does**  
3 **Staff believe is Company's true motivation for the New Premises**  
4 **Customer Charge?**

5 A. As pointed out in the Opening Testimony of Staff, CUB, and the Coalition, one  
6 effect of the New Premises Customer Charge is to juice the Company's Line  
7 Extension Allowance (LEA) Discounted Cashflow (DCF) model.<sup>53,54,55</sup> Staff  
8 notes that the Commission directed NW Natural to come forward with a  
9 proposal that updates its LEA in Order No. 22-388. The *only* way that Staff  
10 found a non-negative or trivially small LEA could be justified in the Company's  
11 DCF model is through the inclusion of an exceptionally high fixed charge for  
12 customers living in newly constructed premises.<sup>56</sup> As previously stated, Staff  
13 believes that this is discriminatory and deceptive to customers living in newly  
14 constructed premises.

15 **Q. Staff previously discussed that the generous LEA and the New**  
16 **Premises Customer Charge may be deceptive.<sup>57</sup> Does Staff have new**  
17 **reasons that it believes that the New Premises Customer Charge and**  
18 **generous LEA may be deceptive?**

19 A. Yes. The LEA flows to builders, not necessarily to the customer. While some  
20 or many homeowners may see a more direct benefit from the LEA, landlords or

---

<sup>53</sup> Staff/900, Dlouhy/44.

<sup>54</sup> CUB/900, Garrett/104.

<sup>55</sup> Coalition/100, Culko/24.

<sup>56</sup> Staff/900, Dlouhy/44.

<sup>57</sup> Staff/1800, Shierman/22.

1 apartment owners may be able to pocket the generous LEA without passing  
2 any of the savings onto their tenants. These tenants would then be faced with  
3 an exceptionally high and discriminatory customer charge without receiving any  
4 of the benefit from the LEA. Staff has testified that this bait-and-switch may  
5 hide the true costs of the LEA in the New Premises Customer Charge.

6 However, in the case of a renter, the New Premises Customer Charge would  
7 extract benefits from renters and shift them to landlords or builders. Staff finds  
8 this to be an entirely inequitable transfer of costs that raises serious cost  
9 causation and equity concerns.

10 **Q. Does the relationship between the New Premises Customer Charge**  
11 **and the Company's proposed LEA undermine NWN's argument that the**  
12 **New Premises Customer Charge is exclusively about fixed cost**  
13 **recovery?**

14 A. Yes. Further, the Company's proposed change would have far-reaching  
15 impacts on the balance of fixed vs. volumetric cost recovery going forward.  
16 According to the Company's estimates of average bills at their proposed rates,  
17 roughly 10 percent of revenues would be recovered through the fixed charge  
18 for existing premise customers. For New Premises customers, this amount  
19 would be nearly 40 percent. It is impossible to ignore the dramatic change in  
20 cost recovery and business risk faced by the Company due to this change. It is  
21 true that in the immediate future the number of customers living in existing  
22 premises would vastly outweigh the number of New Premises customers,

1 leading to a relatively small impact on the Company's overall cost recovery and  
2 risk profile.

3 However, the City of Portland, for example, has been in a declared  
4 housing state of emergency since 2015. This has led to zoning and permitting  
5 reform allowing for more dense infill development.<sup>58</sup> As infill development  
6 increases in NWN's service territory, more customers will be subject to the  
7 New Premises Customer Charge, further altering NWN's cost recovery profile.  
8 While the Company claims this is not the reasoning for their proposal, this  
9 aspect of the New Premises Customer Charge cannot be ignored.

10 **Q. Please summarize Staff's rate design recommendations.**

11 A. Staff continues to recommend that the Commission not adopt NWN's proposed  
12 New Premises Customer Charge. Staff continues to support NWN's proposal  
13 to bifurcate the customer charge for single- and multi-family dwellings.

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

15 A. Yes.

---

<sup>58</sup> See <https://www.opb.org/article/2022/03/30/portland-extends-housing-state-of-emergency-for-three-years/>.