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COMPANY NAME: NW Natural

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Late Payment Charge

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July 7, 2022

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attention: Filing Center
201 High Street SE, Suite 100
Salem, Oregon 97301-3398

Re: RG 84—Order No. 16-255 Compliance Filing—Late Payment Charge

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company) makes this filing to meet the reporting requirement adopted by the Public Utility Commission of Oregon (Commission) in Order No. 16-255 that renewed the waiver of OAR 860-021-0126(3) that was first granted by the Commission to NW Natural effective June 1, 2000 in Order No. 00-267.

The referenced 2000 and 2016 Commission orders allow for the application of a $3 minimum late payment charge on past due amounts between $50 and $200. The 2019 Report was acknowledged by letter in docket RG 84 dated July 22, 2019. The Company makes this filing in compliance with Order No. 16-255 issued July 7, 2016.

<u>Background</u>

On May 1, 2000, NW Natural filed NWN Advice No. 00-6 (Advice Filing) with the Commission.[1] In its Advice Filing, NW Natural proposed revisions to General Rule 7 and to Schedule C of the Company's Oregon Tariff P.U.C. Or. 22; specifically: (a) a change to General Rule 7 Payment Responsibilities to add the option for a customer to request a preferred billing due date; and (b) a change to Schedule C Miscellaneous Charges and Credits to establish a minimum late charge of $3 to be assessed on past due amounts between $50 and $200.

In addition to the proposed revisions to its Oregon Tariff, NW Natural requested a waiver of OAR 860-021-0126(3) to accommodate the implementation of the $3 minimum late payment charge amount.

NW Natural's request to establish a $3 minimum late charge was motivated by the Company's objective to encourage on-time customer payments, stating in the Advice Filing that both the Company and ratepayers benefit when more customers pay on time. At that time, NW Natural identified three benefits: (1) improved cash flow; (2) improved credit and collection efficiencies; and (3) reduced bad debt expense.[2] The Company's Advice Filing, as supplemented, was adopted by the Commission in Order No. 00-267 dated May 23, 2000. The Commission did not place any conditions or time restrictions on the waiver granted by this order.

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[1] On May 9, 2000, the Company filed a substitute Advice Filing to accommodate editorial changes suggested by the Commission Staff, and to add to its proposed filing, revisions to its Tariff P.U.C. Or. 23 that mirror the changes proposed to Tariff P.U.C. or. 22, together with some additional housekeeping changes to Schedule A of Tariff P.U.C. Or. 23. P.U.C. Or. 23 was the then effective Tariff for propane service to Coos Bay, Oregon.

[2] See NWN Advice No. OPUC 00-6, page 2

The changes adopted by the Commission in Tariff P.U.C. Or. 22 and P.U.C. Or. 23 effective June 1, 2000, including the $3 minimum late charge, were also adopted in two subsequent Tariffs; P.U.C. Or. 24 that went into effect September 1, 2003, by Order No. 03-507 in docket UG 152, and Tariff P.U.C. Or. 25, that went into effect November 1, 2012, by Order No. 12-408 in docket UG 221.[3] On July 7, 2016, the Commission issued Order No. 16-255 in docket UM 1631, approving the continuation of the waiver. Staff's recommendation included a reporting requirement that the Company provide a triennial report to analyze and discuss the effects of the $3 minimum late payment charge, including whether (1) the $3 late payment charge provides an incentive for customers to make timely payments; (2) the customer incentive improves the Company's cash flow; (3) the customer incentive improves the Company's credit and collection efficiencies; and (4) the customer incentive reduces the Company's bad debt expense. On July 8, 2019, the Company filed its first triennial report that was acknowledged by letter in RG 84 on July 22, 2019.

Special Consideration for COVID-19

The period covered by this triennial report includes calendar years 2019-2021, presenting a major challenge to provide the same data for these years that was included in the previous report and that is expected to be included in future triennial reports to maintain consistency in the analysis of trends in metrics. During the majority of 2020 and through all of 2021, NW Natural did not charge late payment fees and did not conduct typical credit and collection activities due to the COVID-19 pandemic. The Company voluntarily suspended these fees and activities, which was subsequently formalized as part of a multi-party COVID-19 stipulation in docket UM 2114. Utilities' actions as outlined in the UM 2114 stipulation in response to the pandemic conditions of 2020 and 2021 effectively resulted in a pause in the availability of useful data for this report. As a result of these unprecedented conditions, 2020 and 2021 data for disconnection notices, late fees, uncollectible expense, and write-offs are not meaningful for the trend analysis that this triennial report would typically have. Consequently, the Company has included data in this report for 2019 only, as use of any data for 2020 and 2021 would not result in any meaningful analysis. NW Natural notes that the 2019 data generally follows the trends from the previous report. Thus, historical data trends through 2019 before pandemic conditions support the benefits outlined in Staff's reporting requirements. The Company continues to support the $3 late payment charge for use when the late fee moratorium is eventually lifted and expects that the benefits of its use would continue to be realized as Oregon utilities return to typical credit and collection activities.

The next triennial report will also be impacted by the pandemic as the pause in credit and collection activities will continue for the majority of 2022. However, it will likely be possible that data for 2023 and 2024 will be available and a more meaningful analysis can be included in the report.

Analysis and Discussion

There are a number of factors that affect cash flow, credit and collection experiences, and bad debt expense; the late charge structure is just one factor. In addition, the Company has used the current late payment structure in Oregon since 2000, meaning the impacts of the structure have been embedded in actual results for over 20 years. For these reasons, it is difficult to demonstrate with precision how the Company's late charge structure impacted its overall credit and collection and bad debt experiences over the years.

[3] Order No. 12-408 was later supplemented by the Commission with Order No. 12-437 dated November 16, 2012.

NW Natural reviewed its residential credit and collections and bad debt expense[4] for the years 2009 through 2019 – omitting 2020 and 2021 due to actions taken in response to pandemic conditions, as explained above.[5] Oregon residential customer data was compared to Washington residential customer data, where the Company has a $1 minimum late charge. Because NW Natural's Oregon and Washington service areas are similar in terms of economy and pricing, although Washington residential rates have been consistently lower than Oregon residential rates, any difference in results could be indicative of the effect that the $3 minimum late charge has had.

NW Natural reviewed the number of residential customer accounts that received 20-day notices of disconnection of service since the Company's last review. Customers in both states receive a 20-day notice if a bill was not paid by the due date stated on the bill. As explained above, data for 2020 and 2021 is not comparable to other years and has been omitted.

Table 1 below shows the percentage of residential customer accounts that received a 20-day notice by state for the years 2009 through 2019.

Table 1
Percentage of residential customers issued 20-day notices

Year	Oregon	Washington
2009	5.6%	6.8%
2010	5.0%	5.5%
2011	5.0%	5.6%
2012	4.5%	4.9%
2013	4.3%	4.4%
2014	4.1%	4.3%
2015	3.7%	3.7%
2016	3.4%	3.1%
2017	3.5%	3.5%
2018	3.2%	3.1%
2019	4.0%	3.7%
2020	Omitted; due to pandemic response, data is not comparable	
2021	Omitted; due to pandemic response, data is not comparable	
2009-2019 average	4.2%	4.4%

The historical trend in Table 1 illustrates the improvement in the timeliness of customer payments. The percentage of residential customers issued 20-day notices continues to trend at a rate that is a decrease of 25% compared to the 2009 experience. Through 2019, the Company believes that the $3 minimum late charge continues to be a contributing factor influencing Oregon customers' on-time payment behavior.

The data the Company collected also shows that the percentage of Oregon residential customer bills that are assessed a late charge has declined steadily since 2009. Table 2 below shows the percentage of residential bills that had late charges applied for both Oregon and Washington

[4] Because the $3 minimum applies only to balances between $50 and $200, and because commercial and industrial bills are typically greater than $200, the Company looked only at residential accounts.
[5] NW Natural does not have data in its customer information system before 2009.

residential bills. The historical trend in Table 2 demonstrates the lower percentage of Oregon residential customers that incurred late fees applied to bills.

Table 2 Percentage of residential customer bills with late charges applied		
Year	Oregon	Washington
2009	8.6%	10.2%
2010	8.2%	8.8%
2011	8.2%	9.0%
2012	7.3%	7.8%
2013	7.2%	7.3%
2014	6.8%	7.1%
2015	6.4%	6.5%
2016	6.0%	5.8%
2017	6.2%	6.3%
2018	5.6%	5.7%
2019	8.1%	7.7%
2020	Omitted; due to pandemic response, data is not comparable	
2021	Omitted; due to pandemic response, data is not comparable	
2009-2019 average	**7.15%**	**7.5%**

Table 2 shows that in both states, the percentage of bills that were assessed late charges has declined when compared to 2009, with Oregon remaining slightly lower than Washington where the Company has a $1 minimum late charge. The average 2009-2019 Oregon percentage represents a 17% decrease in late charges assessed from the experience in 2009, which is the most historically available period in the Company's billing records.

Table 3 below illustrates the Company's experience of annual gross residential write-offs by state. The data shows that residential write-offs for Washington customers represent, on average, 14.5% of total residential write-offs. This average experience is higher than the percentage of residential revenue in Washington in 2019 at 13.0%. Again, the Company believes that this data is indicative of the effectiveness of the $3 minimum late charge influencing Oregon customers' payment behavior.

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Table 3 Percentage of Gross Residential Write-Offs by State*		
Year	Oregon	Washington
2009	82.3%	17.7%
2010	85.5%	14.5%
2011	84.5%	15.5%
2012	85.2%	14.8%
2013	85.9%	14.1%
2014	84.0%	15.5%
2015	85.5%	14.3%
2016	88.2%	11.8%
2017	85.8%	14.2%
2018	86.0%	14.0%
2019	87.0%	13.0%
2020	Omitted; due to pandemic response, data is not comparable	
2021	Omitted; due to pandemic response, data is not comparable	
2009-2019 average	**85.5%**	**14.5%**

*Please note that due to improved querying formulas, prior period data has been updated since the last triennial report. Changes are minor and the observed trends from the previous report remain the same.

In addition, the experience of residential write-offs as a percentage of residential revenues by state, as shown in Table 4 below, demonstrates the improved metric for Oregon versus Washington. This experience again emphasizes the more favorable experience with Oregon residential write-offs, which can be indicative of a positive impact of the $3 minimum late charge.

Table 4 Percentage of Gross Residential Write-Offs by State* (Residential billed revenue)						
	Oregon			**Washington**		
Year	**Write-off**	**Revenue**	**%**	**Write-off**	**Revenue**	**%**
2009	$ 4,789,623	$511,893,926	**0.94%**	$1,032,127	$64,080,550	**1.61%**
2010	3,146,952	415,360,800	**0.76%**	535,519	49,531,694	**1.08%**
2011	2,992,459	439,881,295	**0.68%**	547,134	54,714,212	**1.00%**
2012	2,565,477	390,070,669	**0.66%**	446,161	46,985,552	**0.95%**
2013	2,060,945	401,953,956	**0.51%**	338,232	49,112,448	**0.69%**
2014	2,063,126	392,035,459	**0.53%**	379,863	48,552,041	**0.78%**
2015	1,734,615	369,307,365	**0.47%**	289,368	44,671,349	**0.65%**
2016	1,662,213	360,693,758	**0.46%**	221,663	40,198,408	**0.55%**
2017	1,569,716	407,614,445	**0.39%**	260,032	51,148,494	**0.51%**
2018	1,305,830	362,316,051	**0.36%**	213,408	45,624,649	**0.47%**
2019	1,288,375	383,028,016	**0.34%**	191,855	47,875,637	**0.40%**
2020	Omitted; due to pandemic response, data is not comparable			Omitted; due to pandemic response, data is not comparable		
2021	Omitted; due to pandemic response, data is not comparable			Omitted; due to pandemic response, data is not comparable		

*Please note that due to improved querying formulas, prior period data has been updated since the last triennial report. Changes are minor and the observed trends from the previous report remain the same.

(1): Customers' Timely Payments. Tables 1 and 2 above illustrate the improvement in timely payments, indicated by the substantial decline in both percentage of residential customers issued 20-day notices and percentage of residential customer bills with late charges applied since 2009. In addition, Table 3 demonstrates the tendency for the experience in Oregon residential gross write-offs to be better as a percentage of total residential write-offs in comparison to Oregon's percentage of residential revenues as a percentage of total residential revenue. This supports the argument that the Company's late charge structure has impacted the timely payment by customers.

(2): Improved Cash Flow. The tendency for Oregon customers to continue to pay on-time and improve upon on-time payments, as depicted by the lower volume of 20-day disconnection (or delinquency) notices shown in Table 1 above, and in the positive trend in Oregon residential write-offs in Table 4 above, equates to an overall improved cash flow for the Company.

(3): Improved Credit and Collection Efficiencies. When more customers pay their bill on time, the Company avoids certain costs and administrative tasks, such as those associated with the issuance of notices of disconnection and responding to customer inquiries regarding these notices. The marked improvement in customer on-time payments illustrated in Tables 1 and 2 translates into continued cost savings, enabling the Company to more efficiently manage resources involved with the disconnection process.

(4): Reduced Bad Debt Expense. In 1999, the year before the adoption of the $3 minimum late charge, the Company's uncollectible expense as a percentage of revenue was about 0.58%.[6] Table 5 below shows the Company's uncollectible expenses for the 2011 through 2019 time period.[7] The table illustrates the decline in the uncollectible expense as a percentage of revenue over time, which is now at a fraction of the level experienced in 2009.

Table 5
Uncollectible expense as a percentage of revenue

Year	Total Company
1999	0.58%
2011	0.25%
2012	0.16%
2013	0.03%
2014	0.08%
2015	0.10%
2016	0.125%
2017	0.116%
2018	0.086%
2019	0.096%
2020	Omitted; due to pandemic response, data is not comparable
2021	Omitted; due to pandemic response, data is not comparable

Publicly available information for local electric companies in the Company's service territory indicate an estimated 2021 uncollectible expense percentage of 0.440% for Pacific Power and 0.3264% for

[6] Based on data taken from NW Natural's 1999 Annual Report.
[7] Total Company uncollectible expense data for the 2000 through 2010 time period is not readily available.

Portland General Electric Company.[8] NW Natural's experience continues to be lower. The Company believes that the effect that the $3 minimum late charge has had on customer payment behavior is the primary factor behind the significant differences in uncollectible expense between NW Natural and the other local utilities. Given the higher on-time payment behavior discussed above, it would not be unreasonable to assume that the Company would have seen a higher uncollectible expense, possibly at the same or similar levels as the two other local utilities, if the $3 minimum late charge had not been in effect.

NW Natural's Oregon customers have seen the benefit of lower uncollectible expense in their rates over time. Table 6 below shows the revenue sensitive effect associated with uncollectible expense as applied to the annual changes in customer rates through the Purchased Gas Adjustment process for the years 2011-2019, and for 1999, which is the period before the implementation of the $3 minimum.

Table 6 – Historical Uncollectible Expense

	Net Uncollectible Expense	Adjustment to Rates
1999	$3,475,446	0.824%
2011	$1,823,551	0.245%
2012	$1,551,703	0.227%
2013	$1,459,558	0.227%
2014	$1,290,601	0.187%
2015	$1,032,745	0.157%
2016	$1,036,942	0.170%
2017	$848,945	0.125%
2018	$678,352	0.109%
2019	$425,186	0.099%
2020	Omitted; due to pandemic response, data is not comparable	
2021	Omitted; due to pandemic response, data is not comparable	

The uncollectible expense in each year represents the normalized net write-offs based on a three-year average. As Table 4 shows, customers have directly received the benefit of the improvement in bad debt write-off expense since the $3 minimum late charge was implemented.

<u>Conclusion</u>

While NW Natural's response to the COVID-19 pandemic impacted the comparability of data for the triennial period of this report, the available data through 2019 continues to show the effectiveness and benefit of the $3 minimum late charge. As represented by the information provided above, NW Natural believes the $3 minimum late charge in effect since May 2000 under the waiver granted by the Commission continues to be reasonable and appropriate and will continue to provide customer benefits.

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[8] Sources: Pacific Power 2021 Results of Operations, docket RE 56 - percentage calculated based on results after Type 3 Adjustments; Portland General Electric UE 394 General Rate Case, PGE/201, Tooman-Batzler/page 3.

NW Natural notes that upcoming changes to consumer rules in the current rulemaking docket AR 653 and issues raised in the Company's current general rate case in docket UG 435 will likely have impacts on our credit and collection activities and the ability to charge certain fees, including late fees. NW Natural will attempt to explore the impact of these new rules and conditions and any impacts on the $3 minimum late charge in the next triennial report.

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