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July 31, 2020

VIA ELECTRONIC FILING

Attention: Filing Center
Public Utility Commission of Oregon
201 High Street SE, Suite 100
P.O. Box 1088
Salem, Oregon 97308-1088

Re: Docket UG 388 – Northwest Natural Gas Company, dba NW Natural, Request for a General Rate Revision.

Attention Filing Center:

Attached for filing in the above-captioned docket is the Joint Testimony in support of the Comprehensive Stipulation.

Please contact this office with any questions.

Sincerely,

Cheyenne Aguilera
Paralegal

Attachment

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 388

Joint Testimony in Support of Comprehensive Stipulation

Stipulating Parties: NW Natural Gas Company d/b/a NW Natural, Public Utility Commission of Oregon Staff, the Oregon Citizens' Utility Board, and the Alliance of Western Energy Consumers

NW NATURAL-STAFF-CUB-AWEC EXHIBIT 100

Joint Testimony of Zachary D. Kravitz, Marianne Gardner, Bob Jenks, Bradley Mullins

July 31, 2020

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY

Q. Who is sponsoring this testimony?

A. This testimony is sponsored jointly by NW Natural Gas Company d/b/a NW Natural ("NW Natural" or "Company"), Staff of the Public Utility Commission of Oregon ("Staff"), the Oregon Citizens' Utility Board ("CUB"), and the Alliance of Western Energy Consumers ("AWEC") (collectively, the "Stipulating Parties").

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

A. My name is Zachary D. Kravitz, and my current position is Director, Rates & Regulatory Affairs for NW Natural. My qualifications are provided in Exhibit NW Natural/1300.

My name is Marianne Gardner. I am the Program Manager, Rates and Accounting, employed in the Energy Rates, Finance and Audit Division of the Public Utility Commission of Oregon ("Commission"). My qualifications are provided in Exhibit Staff/101.

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

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

Q. What is the purpose of this Joint Testimony?

A. This Joint Testimony describes and supports the Comprehensive Stipulation filed contemporaneously in this docket ("Comprehensive Stipulation"). The Comprehensive Stipulation is joined by all parties to the proceeding (the Stipulating Parties) and resolves all remaining issues in this docket, including issues pertaining to revenue requirement, the timing of its issuance of customer credits under Schedules 185 and 186, curtailment and entitlement revenues, fuel mix communications, the Oregon Corporate Activity Tax ("CAT"), decoupling calculation treatment for the month of April, the Excess Deferred Income Taxes ("EDIT") true-up credit, historical amortization of EDIT related to gas reserves, rate spread, and rate design. In addition, the Comprehensive Stipulation incorporates by reference the agreement reached by the parties in March of this year regarding cost of capital, which was memorialized in the Cost of Capital Stipulation filed on March 12, 2020.

II. BACKGROUND

Q. Please summarize the background and context of Docket No. UG 388.

A. On December 30, 2019, NW Natural initiated this proceeding, Docket No. UG 388, by filing a request for a general rate increase ("Initial Filing"). In its Initial Filing, NW Natural requested a revision to customer rates that would increase the Company's annual Oregon jurisdictional revenues from base rates by $71.4 million which would have resulted in an approximate 11.5 percent increase to current customer rates, or an 18.9 percent increase to margin. The Company developed the case using the test year comprised of the twelve months ending October 31, 2021 ("Test Year"), and a historical base year of the twelve months ending December 31, 2019 ("Base Year"). Administrative Law Judge Traci Kirkpatrick convened a prehearing conference on January 30, 2020. In accordance with the prehearing conference memorandum, the effective date for rates will be November 1, 2020.

Q. Have the Stipulating Parties conducted discovery in this case?

A. Yes. Since the Initial Filing, NW Natural has responded to over 490 data requests from Staff, CUB, and AWEC, and has provided updates to its data responses during the pendency of this case.

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

A. Yes, these parties each filed opening testimony on April 17, 2020, in which they proposed adjustments to NW Natural's proposed revenue requirement, as well as certain changes to Company practices.

Q. Please describe the additional process to date in this docket.

A. At a Workshop convened by Staff on March 3, 2020, the Stipulating Parties reached agreement on Cost of Capital issues, which was memorialized in the Cost of Capital Stipulation filed on March 12, 2020 and supported by testimony filed by the parties on May 13, 2020.

On May 29, 2020, NW Natural filed Reply Testimony in support of its request for a general rate increase.

Meanwhile, the Stipulating Parties convened an additional workshop on April 6, 2020, and additional settlement conferences on April 29, 2020, May 6, 2020, June 8, 2020 and June 9, 2020. As a result of these settlement discussions, the Stipulating Parties reached a comprehensive settlement of all issues in this case. The Comprehensive Stipulation memorializes the Stipulating Parties' agreements.

In light of the resolution of all issues, Staff filed a motion on June 16, 2020 to suspend the procedural schedule. Administrative Law Judge Kirkpatrick granted this motion on June 17, 2020, directing the filing of a joint stipulation or status report on or before July 10, 2020.

III. REVENUE REQUIREMENT ISSUES

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

A. At the settlement conferences held on June 8-9, 2020, the Stipulating Parties agreed to an Oregon allocated increase to NW Natural's annual revenue requirement of $45.8 million. The annual revenue requirement increase in this proceeding is based on the Stipulating Parties' agreement that the Company's requested Oregon-allocated increase to annual revenue requirement should be reduced by a total of $25.6 million from the initial filing amount of $71.4 million, based on the adjustments to NW Natural's Initial Filing described in further detail below.

This level of revenue increase will result in a 7.37 percent overall increase (including gas costs for sales customers), or a 12.11 percent margin increase to rates, and a $4.18 impact on the average residential monthly bill.

Q. Please provide an overview of the Stipulating Parties' agreement regarding revenue requirement.

A. The Comprehensive Stipulation represents the settlement of all revenue requirement issues and includes and incorporates the impact of the Cost of Capital Stipulation. Appendix A shows the adjustments to the Company's Initial Filing that the Stipulating Parties used to arrive at the $45.8 million revenue increase, including the Stipulating Parties' agreement regarding Cost of Capital components.

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

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

Q. On what date do the Stipulating Parties agree that rates resulting from this rate case should go into effect?

A. NW Natural will file rate schedules as a compliance filing in Docket No. UG 388, reflecting the stipulated revenue requirement adjustments and the resolution of the remaining issues in the Comprehensive Stipulation, effective November 1, 2020.

a) Rate Case & Expense and Regulatory Expense

Q. Please describe the Stipulating Parties' agreement regarding rate case and expense and regulatory expenses.

A. In its Initial Filing, NW Natural determined Oregon-jurisdictional rate case and regulatory expense by starting with total Company expense for the Test Year and applying a 70 percent allocation factor.[1] In Opening Testimony, Staff proposed allocating expense items based on a state-specific approach. With respect to general rate case expenses, Staff stated that its policy was to amortize actual expense over the time-period that is typical for the timing of general rate cases for that utility.[2] Since responses to data requests were still pending at that time, Staff did not yet have a specific adjustment to recommend.[3] With respect to other regulatory expense, Staff recommended a net adjustment of $92,550 to account for various regulatory charges that NW Natural had allocated 70 percent to Oregon that were related either to Washington or to Oregon regulatory expense alone.[4]

[1] NW Natural/2100, Davilla/31.
[2] Staff/100, Gardner/11.
[3] *Id.*
[4] Staff/700, Soldavini/14-16.

In Reply Testimony, NW Natural expressed reservations regarding Staff's state-specific methodology for regulatory expenses, as the Company has applied the 70/30 allocation factor to these costs for the past 20 years. The Company was willing to apply Staff's methodology in this case with a proposed correction of $177,000 to include one-third of the Company's anticipated rate case expense for this rate case. Since this approach would have resulted in an increase to regulatory expense, the Company proposed to abide by its initial regulatory cost recovery request in this case.[5]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $92,000.

b) Plant Test Year Additions

Q. Please describe the Stipulating Parties' agreement regarding plant test year additions.

A. In its Initial Filing, NW Natural sought to recover all capital expenditures, both discrete and non-discrete, that will be placed in service during the Test Year.[6] For these expenses, the Company used a 13-month average of monthly averages ("AMA") through the Test Year to reflect the portion of the Test Year during which the given asset will be used and useful for providing utility service.[7] NW Natural explained that it believes this approach is consistent with Oregon's "used and useful" standard, codified in ORS 757.355.[8]

In its Opening Testimony, Staff opposed the inclusion of Test Year capital additions, with the exception of proposed additions of meters and services.[9] Staff

[5] NW Natural/2100, Davilla/31-32.
[6] NW Natural/2100, Davilla/50.
[7] NW Natural/2100, Davilla/50.
[8] NW Natural/1300, Kravitz/6-7.
[9] Staff/200, Fox/2-6. In Opening Testimony, CUB also objected to the inclusion of capital additions during the Test Year on the grounds that capital projects not forecast to be in service by the rate effective date should be excluded from rates under the used and useful standard. CUB also recommended that once

therefore proposed an adjustment to reduce plant in service by $43.6 million, which is the amount of plant included in the Test Year on an AMA basis.[10] Staff also proposed an adjustment to reduce accumulated depreciation, also on an AMA basis, by $27.3 million and an adjustment to reduce test year depreciation expense by $752,000.[11] The impact of Staff's proposed adjustment resulted in a proposed $16.35 million reduction in Test Year rate base and a $752,000 reduction in Test Year depreciation expense.[12]

In Reply Testimony, NW Natural explained its position that plant additions placed in service during the Test Year "snapshot" are consistent with Oregon's used-and-useful standard under ORS 757.355.[13] In addition, the Company explained its concerns with Staff's limited exception for certain distribution investments, stating that other investments relate to customer acquisition and growth, such as mains investments, and that a number of other "run rate" capital additions are ongoing and predictable year-over-year costs.[14]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to rate base of $23.290 million and a reduction to expense of $1.639 million to reflect removal of projects that will not go into service until after November 1, 2020, except that the Stipulating Parties have agreed to include for the Test Year a portion of the capital additions related to customer acquisitions. In recognition of the capital associated with customer acquisitions, the Stipulating Parties agree to an increase to rate base of $22.405 million and an increase to expense of $637,000.

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the net plant is removed from rate base, depreciation expense would need to be reduced to account for a reduction in plant. CUB did not offer a specific dollar impact for this adjustment in Opening Testimony. CUB/200, Gehrke/10-11.

[10] Staff/200, Fox/6.
[11] Staff/200, Fox/7.
[12] NW Natural/2100, Davilla/51.
[13] NW Natural/1300, Kravitz/8-12.
[14] NW Natural/2100, Davilla/Page 54-55.

c) Removal Work in Progress

Q. Please describe the Stipulating Parties' agreement regarding Removal Work in Progress.

A. Removal Work in Progress ("RWIP") is a combination of cash disbursement related to the retirements of plant-in-service and the amount of cost of removal reserve that is credited to the RWIP account.[15] In its Initial Filing, NW Natural's proposed approach to accounting for RWIP was to include RWIP in rate base.[16] In its Opening Testimony, Staff argued that RWIP should not be included in rate base but rather should be accounted for in the Company's accumulated depreciation reserve in determining its depreciation rates.[17] As a result, Staff proposed that the entire RWIP amount be excluded from rate base in this case, thereby increasing accumulated depreciation by $37.387 million dollars and reducing rate base by the same amount.[18]

On reply, NW Natural produced the testimony of depreciation expert, John Spanos. Mr. Spanos explained that NW Natural historically has not included RWIP in depreciation rates because the amounts could not be specially identified for particular asset classes, and that therefore it appropriately had been included in rate base.[19] However, to address Staff's concern, Mr. Spanos recommended that, on a going-forward basis, the Company include RWIP in its next depreciation study by establishing a practice to classify the RWIP balance by account.[20]

[15] NW Natural/2200, Spanos/3.
[16] NW Natural/2200, Spanos/3, 5.
[17] Staff/200, Fox/22-23
[18] Staff/200, Fox/18-23.
[19] NW Natural/2200, Spanos/4-5.
[20] NW Natural/2200, Spanos/6.

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to include RWIP in NW Natural's rate base, with a reduction to expense of $60,000.

d) Gas Storage Operating Expense and Operations and Maintenance Expense

Q. Please describe the Stipulating Parties' agreement regarding gas storage operating expense and operations and maintenance expense.

A. Non-payroll gas storage operations and maintenance ("O&M") expenses involve the costs associated with operating and maintaining NW Natural's wells, compressors, reservoirs, dehydrators and related equipment.[21] In its Initial Filing the Company established its Base Year expenses using actual O&M expenses incurred from January through September of 2019, with additional expenses forecast for the remaining three months of 2019.[22] This amount was then escalated using the West Region Urban Consumer Price Index ("CPI"). The Company then added two incremental expenses to this cost category on an Oregon-allocated basis associated with four compressors that are being rebuilt and a leased compressor agreement that took effect in July of 2019.[23] Based on these calculations, the Company projected that the non-payroll expense associated with its gas storage operations will increase from $2.320 million to $3.134 million.[24]

In its Opening Testimony Staff recommended using the three-year average value (2017 – 2019) for gas storage operating expense, which would reduce NW Natural's requested storage operating expense by $1.018 million, from $3.134 million to $2.166 million.[25] AWEC proposed an adjustment that would reduce the Company's Test Year

[21] NW Natural/2100, Davilla/15.
[22] NW Natural/2100, Davilla/15.
[23] NW Natural/2100, Davilla/15-16.
[24] NW Natural/2100, Davilla/16.
[25] Staff/300, Fjeldheim/10.

revenue requirement by $1.244 million by removing a pro forma adjustment to storage operations and maintenance expenses for the Mist Storage facility in the Test Year.[26]

In its Reply Testimony NW Natural explained its view that Staff's proposal to use a three-year average would inappropriately flatten recent trend lines and ignore specific expected Test Year expenses.[27] In response to AWEC's proposed adjustment, NW Natural provided additional explanation and support for its expected costs.[28]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $250,000.

e) Property Taxes

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

A. In its Initial Filing NW Natural proposed $23.104 million in Test Year property taxes,[29] calculated using a simple three-year average of the ratio between property taxes paid and the value of net plant, as of the previous year-end.[30] The ratio is then multiplied by the weighted Test Year net plant to derive the property tax amount.[31]

In Opening Testimony Staff recommended an initial adjustment of $30,000, to be trued up to the final level of Test Year net plant determined by the Commission by using adjusted total plant less the Test Year accumulated depreciation.[32] Staff's proposed adjustment was calculated using a weighted three-year average to generate a ratio between taxes paid and the net plant of the previous year end amount, which ratio is then multiplied by the weighted Test Year net plant to derive a property tax amount.[33]

[26] AWEC/100, Mullins/6-7.
[27] NW Natural/2100, Davilla/17.
[28] NW Natural/2100, Davilla/19-20.
[29] Staff/300, Fjeldheim/26.
[30] NW Natural/2400, Walker/4.
[31] NW Natural/2400, Walker/4-5.
[32] Staff/300, Fjeldheim/26.
[33] NW Natural/2400, Walker/5.

In Reply Testimony, NW Natural recommended maintaining the simple three-year average property tax ratio proposed in this case.[34]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $30,000.

f) Franchise Fees

Q. Please describe the Stipulating Parties' agreement regarding franchise fees.

A. In its Initial Filing NW Natural included $14.975 million in franchise fees for the Test Year,[35] which the Company derived by applying the effective rate of 2.393 percent to gross sales and transportation revenue and miscellaneous revenues to provide a forecast for total franchise fees for both the Base Year and Test Year, based on the latest franchise fee analysis using actual franchise fees from July 1, 2018 through June 30, 2019.[36]

In its Opening Testimony Staff proposed the franchise fee rate be calculated based on a three-year average of the last three years of actual data provided as part of the Company's annual Purchased Gas Adjustment ("PGA"), resulting in a franchise fee of 2.388 percent.[37] The 2.388 percent would be used in the Test Year conversion factor for the revenue requirement, and Staff would apply this percentage to Staff's adjusted Test Year revenues to calculate the amount of franchise fees in O&M expense.[38]

In Reply Testimony NW Natural identified an error in Staff's calculations for the latest gas year, 2019-2020, in which Staff did not include the unbilled franchise fee.[39] This reduced the amount of the franchise fees recognized on the Company's books and

[34] NW Natural/2400, Walker/5.
[35] Staff/300, Fjeldheim/23.
[36] NW Natural/1000, Walker/19; NW Natural/2400, Walker/2.
[37] Staff/300, Fjeldheim/24.
[38] Staff/300, Fjeldheim/24.
[39] NW Natural/2400, Walker/2.

generated a lower rate.[40] Fixing this error would result in a Staff adjustment of $24,500, or $6,300 lower than the adjustment included in Staff's Opening Testimony.[41]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $24,000.

g) Oregon Department of Energy Fee

Q. Please describe the Stipulating Parties' agreement regarding the Oregon Department of Energy Fee.

A. In its Initial Filing NW Natural proposed a rate of 0.143 percent and Oregon Department of Energy Fee ("ODOE") Test Year fees of $893,093,[42] which the Company calculated by first calculating an average effective rate for the two-year period of 2018 and 2019, and then applying the average effective rate to total operating revenues.[43] The Company's methodology used the previous two years of actual data and weighted the most recent year by 2/3 and the previous year by 1/3.[44]

In its Opening Testimony Staff proposed an adjustment of $37,000, arrived at by calculating the rate on a three-year average using the last three years of actual data, resulting in 0.1368 percent versus the Company's calculated 0.143 percent.[45]

In Reply Testimony, NW Natural explained its position that the most recent year should be weighted by 2/3 and the previous year by 1/3, rather than applying a simple average, due to the variability in the ODOE budget and the Company's revenues.[46]

[40] NW Natural/2400, Walker/2-3.
[41] NW Natural/2400, Walker/3.
[42] Staff/30, Fjeldheim/25.
[43] NW Natural/1000, Walker/20.
[44] NW Natural/2400, Walker/4.
[45] Staff/30, Fjeldheim/25-26.
[46] NW Natural/2400, Walker/4.

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $37,000.

h) Commission Regulatory Fee

Q. Please describe the Stipulating Parties' agreement regarding the Commission's regulatory fee.

A. In its Initial Filing NW Natural proposed a Commission regulatory fee at a rate of 0.300 percent multiplied by total revenues for both the Base Year and Test Year.[47] Staff initially recommended an adjustment increase of $313,899 in Commission regulatory fees, which Staff calculated based on the most recent rate of 0.350 percent set in Order No. 20-054, which was issued after the Company's Initial Filing, multiplied by Test Year gross revenue in the Company's filing.[48] Staff explained that the final amount of fees recommended by Staff would be a function of the amount of gross revenues recommended by Staff in testimony.[49] In Reply Testimony, the Company agreed to using the new rate recommended by Staff.[50]

The Comprehensive Stipulation incorporates an increase to expense of $313,000 to reflect the updated regulatory fee.

i) Directors and Officers Insurance

Q. Please describe the Stipulating Parties' agreement regarding Directors and Officers insurance.

A. NW Natural included $503,225 in Test Year Directors and Officers ("D&O") insurance premiums on an Oregon-allocated basis.[51] Staff recommended removing 50 percent of

[47] NW Natural/1000, Walker/19.
[48] Staff/300, Fjeldheim/25.
[49] Staff/300, Fjeldheim/25.
[50] NW Natural/2400, Walker/3.
[51] NW Natural/2100, Davilla/29.

D&O insurance premiums, based on past Commission practice suggesting that the costs of D&O insurance should be shared between shareholders and utility customers. As a result, Staff proposed an adjustment of $251,613.[52] In Reply Testimony, NW Natural explained its position that utility-allocated D&O insurance costs are a necessary, and thus prudently incurred, cost of doing business that is dedicated to the regulated utility's stability and security.[53]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $251,000.

j) Wages, Salaries, and Incentives

Q. Please describe the Stipulating Parties' agreement regarding wages, salaries, and incentives.

A. NW Natural's requested revenue requirement included an Oregon-allocated cost of base pay of $43.845 million for bargaining unit ("BU") employees, $52.85 million for non-bargaining unit ("NBU") employees, $6.450 million in overtime pay, and $11.1 million in pay-at-risk for NBU employees and officers.[54] The Company calculated base pay for BU employees according to the terms of the underlying collective bargaining agreement, and for NBU employees, the Company escalated base pay using a methodology involving detailed surveys and trend data.[55] The Company calculated pay-at-risk for NBU employees and officers to ensure total compensation packages are comparable to market levels.[56]

For base pay and overtime pay, Staff applied its three-year wage and salary model

[52] Staff/300, Fjeldheim/28-29; NW Natural/2100, Davilla/29.
[53] NW Natural/2100, Davilla/29-30.
[54] NW Natural/700, Rogers/5, 17; NW Natural/1700, Rogers/20, 23.
[55] NW Natural/1700, Rogers/3-4, 10-11.
[56] NW Natural/1700, Rogers/26.

("W&S Model") to calculate base pay costs in the Test Year, which resulted in a proposed adjustment of $998,648 for BU employees and $1.335 million for NBU employees for base pay[57] and $1.371 million for overtime.[58] For pay-at-risk, Staff proposed an adjustment of $7.870 million, based on a proposed disallowance of 100 percent of officer pay-at-risk costs, 75 percent of NBU pay-at-risk costs tied to the Company's financial performance, and 50 percent of NBU pay-at-risk costs that are awarded based on merit.[59] CUB also recommended an adjustment of $5.089 million in operations and maintenance expense and $2.9 million in capital costs by removing pay-at-risk costs from the Test Year.[60] CUB argued that pay-at-risk compensation can potentially create an inappropriate benefit to NW Natural's shareholders because they may be able to recover the cost of pay-at-risk compensation from customers without providing the cost of the incentive to employees who have not met criteria for pay-at-risk compensation.

Finally, Staff proposed disallowing that portion of officer incentives capitalized by the Company from 2015-2019 data, resulting in a reduction to rate base of $4.237 million.[61]

In Reply Testimony, NW Natural explained that Staff's adjustment for BU employee base pay and overtime did not take into account a 3.5 percent increase in BU base pay costs under the collective bargaining agreement that took effect on December 1, 2019, and relied on a simple annual growth rate for pay increases that occurred mid-year. According to the Company's calculations, correcting for these errors would eliminate the entire BU wage disallowance recommended by Staff.[62] In addition, NW Natural expressed

[57] Staff/400, Cohen/8-9; Staff/406, Cohen/2.
[58] Staff/400, Cohen/9.
[59] Staff/400, Cohen/6, 13-14, 17.
[60] CUB/200, Gehrke/8.
[61] Staff/400, Cohen/17.
[62] NW Natural/1700, Rogers/7-9.

concerns with Staff's W&S Model, which rejects the Company's Base Year to rely on an earlier baseline and only escalates wages from that baseline for inflation, both of which have the effect of artificially depressing wage and salary estimates for the Test Year expense.[63]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $7.161 million and a reduction to rate base of $4.735 million. The Stipulating Parties agree that the adjustment for this category includes removal of executive bonuses from the Company's proposed revenue requirement in the Test Year.

k) Materials and Supplies

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

A. In its Initial Filing, NW Natural included $14.5 million in rate base for materials and supplies, which was derived using trended amounts based on historic balances of actual material and supplies inventory and a 13-month AMA for the Test Year.[64] Staff recommended an adjustment of $1.694 million from the Test Year, holding the materials and supplies account at the Base Year average of $12.8 million.[65]

In Reply Testimony, NW Natural explained its position that materials and supplies are impacted by global supply and demand and the reasonableness of using a historical trend to estimate future balances. In addition, the Company demonstrated that the Test

[63] NW Natural/1700, Rogers/15-17.
[64] NW Natural/1000, Walker/25; *see also* NW Natural/2400, Walker/5-8.
[65] Staff/504, Beitzel/2. In Opening Testimony, Staff rounded this amount up to $1.7 million. Staff/500, Beitzel/4-5.

Year estimate is below both the three-year historical average and the actual inventory balances between October 2019 and April 2020.[66]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to rate base of $1.694 million from the Company's proposed revenue requirement in the Test Year.

l) Demonstration and Selling

Q. Please describe the Stipulating Parties' agreement regarding demonstration and selling.

A. In its Initial Filing, NW Natural included $740,057 in demonstration and selling expenses for the Test Year, which involve outreach to and education of potential customers, and on-boarding new customers into the Company's system, as well as costs associated with the Company's Get Ready Emergency Preparedness events and campaign throughout NW Natural's service territory.[67]

In Opening Testimony, Staff recommended disallowing demonstration and selling expense because it appeared these costs included expense for promotional activities related to the Company's corporate identity. Staff explained, however, that a discovery request was pending regarding whether NW Natural's demonstration and selling costs are appropriately recoverable in rates and that it could update its adjustment based on the Company's response.[68]

In Reply Testimony, NW Natural agreed with Staff in part, explaining that rebates were included inadvertently. Correcting for this error by the Company would result in an adjustment of $17,719. The Company further explained its position that other

[66] NW Natural/2400, Walker/5-8.
[67] NW Natural/2100, Davilla/48.
[68] Staff/500, Beitzel/16.

demonstration and selling expenses are associated with essential operations, education, and outreach that form an integral part of utility services.[69]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $400,000.

m) Plant Maintenance

Q. Please describe the Stipulating Parties' agreement regarding plant maintenance.

A. In its Initial Filing, NW Natural included $2.87 million for non-payroll plant maintenance expenses in the Test Year.[70] Non-payroll plant maintenance expenses reflect the Company's costs associated with maintaining miscellaneous utility plant, such as NW Natural's properties and operations center.[71] The Company calculated its Test Year amount by beginning with the Company's Base Year expenses, applying the West Region Urban CPI escalation rate, and adding $818,000 in incremental expenses associated with operating the Company's new operations center.[72]

In its Opening Testimony, Staff recommended an adjustment of $875,000, which Staff calculated by removing $41,600 in 2019 Base Year expenses that did not contain a description and escalating the remaining amount by the All-Urban CPI.[73]

In its Reply Testimony, the Company supplemented the record with transaction level detail supporting its plant maintenance request, in response to Staff's concerns.[74]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $75,000.

n) Employee Benefits

[69] NW Natural/2100, Davilla/49.
[70] NW Natural/2100, Davilla/21.
[71] NW Natural/2100, Davilla/20.
[72] NW Natural/2100, Davilla/21.
[73] Staff/600, Moore/8; NW Natural/2100, Davilla/21.
[74] NW Natural/2100, Davilla/22-23, NWN/2101.

Q. Please describe the Stipulating Parties' agreement regarding employee benefits.

A. In its Initial Testimony NW Natural included $18.1 million of Oregon-allocated medical benefit costs for the Test Year in its requested revenue requirement.[75]

In its Opening Testimony, Staff recommended an Oregon-allocated adjustment of $347,715 in Test Year medical benefit costs, based on Staff's calculation of a "per FTE" rate of increase between the Base Year and the Test Year as compared to recent historical national trends for costs of health care premiums per family reported by the Kaiser Foundation.[76]

In Reply Testimony, NW Natural identified adjustments to Staff's "per FTE" calculation that, once corrected, would reduce Staff's proposed disallowance to $81,709.[77] In addition, NW Natural provided further support for its employee benefits request, including a report demonstrating that the demographics of NW Natural employees contribute to higher-than-average medical costs and several reasons why the historical national average identified by Staff is not reflective of future costs faced by NW Natural as a utility operating in Oregon.[78]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $8,000.

o) Miscellaneous Revenues

Q. Please describe the Stipulating Parties' agreement regarding miscellaneous revenues.

[75] NW Natural/700, Rogers/18.
[76] Staff/600, Moore/9-10.
[77] NW Natural/1700, Rogers/43-44.
[78] NW Natural/1700, Rogers/44-46.

A. To estimate Test Year miscellaneous revenues, NW Natural used the 12-months ended September 30, 2019 as a proxy for the Base Year.[79] Then, to develop Test Year revenues, the Company examined each component of miscellaneous revenue over the last three years ended in September.[80] If the amounts for a particular category were trending upward or downward, the most recent year was taken as representative for the forecast, but if there was no apparent trend to the historic amounts, a simple three-year average was used.[81]

In its Opening Testimony, Staff recommended an adjustment of $206,125 to miscellaneous revenues in the Test Year to reflect actual 2019 Miscellaneous Operating Revenues.[82] Staff additionally recommended that moving forward, if the annual revenue generated from the Unauthorized Use fee in Schedule C is greater than $250,000, this revenue be passed through as a credit to firm customers in the Company's next PGA.[83] In regards to the Company's proposal to exclude proxy Base Year curtailment revenues from the Test Year, Staff recommended the Commission require the Company to credit firm customers the approximately $2.7 million in curtailment fee revenue in the 2020 PGA.[84]

In Reply Testimony, NW Natural did not object to Staff's use of calendar year 2019 data, which was not available at the time the rate case was compiled, but the Company explained that Staff should then compare the detail against calendar year ending data over the last three years.[85] Updating the data using the 2019 calendar year as the Base

[79] NW Natural/1000, Walker/12-13; NW Natural/2400, Walker/9.
[80] NW Natural/2400, Walker/9.
[81] NW Natural/2400, Walker/9.
[82] Staff/700, Soldavini/8.
[83] Staff/700, Soldavini/8.
[84] Staff/700, Soldavini/8.
[85] NW Natural/2400, Walker/10.

Year and calendar years 2018 and 2017 for trending and averaging would result in an increase to miscellaneous revenues, and a decrease to revenue requirement of $101,000.[86]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to an increase to revenues of $101,000.

p) Dues and Memberships

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

A. The expense category for dues and memberships includes dues paid to organizations where membership is necessary for the Company and its employees to perform their job functions, as well as organizations that provide educational opportunities for NW Natural employees, certify NW Natural employees for specialized job functions, and provide opportunities to build and maintain relationships with other entities operating in the natural gas industry.[87] NW Natural's Test Year expense for dues and memberships is based on NW Natural's actual expense for 2019 and escalated for 2020 and 2021.[88]

Staff recommended an adjustment of $315,542 for dues and memberships, for the purpose of sharing membership and dues expenses between shareholders and utility customers.[89] To arrive at this figure, Staff escalated actual 2019 expense by 2.5 percent for twelve months, and then by 2.4 percent to arrive at the Test Year amount.[90] Staff then recognized all the expenses associated with industry research organizations but proposed a 25 percent disallowance for expenses associated with national and regional industry

[86] NW Natural/2400, Walker/10.
[87] NW Natural/2100, Davilla/33.
[88] Staff/1200, Rossow/2.
[89] Staff/1200, Rossow/2.
[90] Staff/1200, Rossow/3.

organizations and a 100 percent disallowance of the expenses associated with technical, commercial, trade, community affairs, and economic development organizations.[91]

In Reply Testimony, NW Natural disagreed with Staff's approach but noted that Staff also miscategorized one research organization as a national and regional organization, which, if corrected, would reduce Staff's adjustment by $57,800.[92]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $316,000.

q) Meals and Entertainment, Miscellaneous, Awards and Gifts

Q. Please describe the Stipulating Parties' agreement regarding meals and entertainment, miscellaneous, and awards and gifts.

A. This category of expenses consists primarily of meals, entertainment, and awards. The meals and entertainment expenses include costs for meals during working lunches, while traveling for business purposes, or while appearing before the Commission.[93] Awards expenses include activities and awards provided to employees to recognize exceptional performance and longevity with the Company.[94] NW Natural's total Oregon-allocated Test Year expense included in its Initial Filing for this combined category was $1.241 million.[95]

In its Opening Testimony, Staff recommended reducing the Company's Test Year expenses for this combined category by $641,281.[96] To arrive at this figure, Staff reviewed the expenses to determine whether they benefit customers or are discretionary and should be shared between customers and shareholders.[97] Items Staff found to have no benefit

[91] Staff/1200, Rossow/3-4.
[92] NW Natural/2100, Davilla/34-36.
[93] NW Natural/2100, Davilla/36.
[94] NW Natural/2100, Davilla/36.
[95] NW Natural/2100, Davilla/36.
[96] Staff/1200, Rossow/8.
[97] Staff/1200, Rossow/7.

to customers, Staff excluded at 100 percent.[98] Those expenses Staff believed benefitted both customers and shareholders, Staff disallowed at 50 percent.[99] Once Staff determined the disallowance based on 2019 dollars, Staff escalated the remaining expenses using the Company's West Region Urban CPI of 2.5 percent and 2.4 percent, respectively, to arrive at the Test Year adjustment.[100]

In Reply Testimony, NW Natural explained its position that expenses for employee meals and awards are prudently incurred and should be fully recoverable. Further, the Company observed that while strict adherence to the Commission's decision in a PGE rate case cited by Staff would result in a 50 percent cost disallowance, Staff's proposed adjustments exceeded this amount.[101]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $641,000.

r) Equity Flotation Costs

Q. Please describe the Stipulating Parties' agreement regarding equity flotation costs.

A. Flotation costs are the costs a company incurs to issue common stock.[102] In its Initial Filing NW Natural proposed that the three-year average of equity flotation costs over the period from 2019 to 2021 be included in revenue requirement, totaling $3.430 million.[103] In Opening Testimony AWEC recommended an adjustment of $4.833 million to remove stock issuance costs from revenue requirement on the grounds that such costs are not appropriately considered in operating results and are accounted for in the Return on

[98] Staff/1200, Rossow/7.
[99] Staff/1200, Rossow/7.
[100] Staff/1200, Rossow/7.
[101] NW Natural/2100, Davilla/37-39.
[102] NW Natural/300, Villadsen/73.
[103] NW Natural/300, Villadsen/74; NW Natural/2400, Walker/19; AWEC/100, Mullins/23.

Equity.[104] In Reply testimony, NW Natural explained its position that the three-year average equity flotation costs should be included in revenue requirement as a cost of running the business and recovered separately in rates if those costs are not captured in the cost of equity.

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to adopt AWEC's proposal, resulting in a reduction to expense of $3.430 million (which results in a reduction to revenue requirement of $4.836 million).

s) Portland LNG Liquefaction Study Project

Q. Please describe the Stipulating Parties' agreement regarding the Portland LNG Liquefaction Study Project.

A. The Portland Liquid Natural Gas ("LNG") Liquefaction project will provide updated piping and instrumentation drawings for the liquefaction system, identify the repairs and/or improvements required for the liquefaction system at the Portland LNG facility, and evaluate alternatives in lieu of making improvements to the liquefaction system. The Study Project is the planning phase of this project. While the Company expects the study will be complete prior to the new rate effective period, the underlying Portland LNG Liquefaction project is not planned to be completed until after the Test Year. The study, therefore, should not have been assumed to be in-service. Staff identified that this project will not be used and useful at the rate effective date and ought to be removed from rate base.[105] In Reply Testimony, the Company agreed, noting that it had inadvertently included the costs of the Portland LNG Liquefaction Study Project in the Test Year.[106]

[104] AWEC/100, Mullins/23-24.
[105] Staff/200, Fox/15.
[106] NW Natural/1400, Karney/7.

The Comprehensive Stipulation incorporates a reduction to rate base of $842,000, and a reduction to expense of $18,000 to reflect that this project now will not be completed until after the Test Year in this rate case.

t) Schedule H CNG O&M

Q. Please describe the Stipulating Parties' agreement regarding Schedule H CNG O&M.

A. In Reply Testimony, NW Natural explained that the Company had inadvertently included $14,778 in operations and maintenance expense that is related to the Company's Schedule H tariff.[107] Schedule H is a self-contained cost of service schedule for high-pressure CNG service, so all costs of this service should be paid for by the customers of Schedule H.[108] Accordingly, the Comprehensive Stipulation incorporates a reduction to expense of $15,000, to reflect that such expense is recovered in a separate, cost-of-service rate schedule.

u) 250 Taylor Property Tax

Q. Please describe the Stipulating Parties' agreement regarding 250 Taylor Property Tax.

A. In its Initial Filing, NW Natural included $3.47 million in the Test Year for property tax expense associated with the operations center located at 250 Taylor Street ("250 Taylor").[109] In Reply Testimony, the Company reduced this amount to $1.5 million, resulting in a revenue requirement reduction of $1.11 million.[110] This change was based on the recent determination that although the facility is a new structure, Multnomah County

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[109] *See* NW Natural/1500, Pipes/16.
[110] NW Natural/1500, Pipes/16.

will reduce the fair value to a lower assessed value by applying a ‘change property ratio,’ which leads the Company to expect that the assessed value will be almost 60 percent less than the fair value.[111] Accordingly, the Comprehensive Stipulation incorporates a reduction to expense of $1.083 million, to reflect a lower assessed value to be applied by Multnomah County.

v) Forecasted Administrative Overhead Rate

Q. Please describe the Stipulating Parties’ agreement regarding forecasted administrative overhead rate.

A. In the Initial Filing, NW Natural calculated the administrative overhead rate based on prior year actuals, consistent with past practice, at the rate of 27.5 percent reflected in the current Cost Allocation Manual.[112] In Opening Testimony, AWEC observed that the intercompany allocations are based on historical lease costs, which are materially lower than the new lease costs for 250 Taylor.[113] In Reply Testimony, the Company updated its calculation to reflect the new lease expense, producing a revised forecasted administrative overhead rate of 28.5 percent.[114] The impact of this change to Oregon-allocated operations and maintenance for the Test Year is a reduction to expense in the amount of $12,900.[115] Accordingly, the Comprehensive Stipulation incorporates a reduction to expense of $13,000.

[111] NW Natural/1500, Pipes/16-17.
[112] NW Natural/2000, Faulk/32.
[113] AWEC/100, Mullins/21.
[114] NW Natural/2000, Faulk/32-33.
[115] NW Natural/2000, Faulk/34.

w) Mist FERC Allocations

Q. Please describe the Stipulating Parties' agreement regarding Mist FERC allocations.

A. NW Natural initially classified its investment in Mist Storage in two FERC accounts: 60 percent in FERC account 363.11 (Liquefaction 16 Equipment-LINN), and 40 percent in FERC account 376.11 (Mains < 4").[116] In Opening Testimony, AWEC recommended that all Mist Storage investments be classified in FERC account 363.11 and that the Company conduct a retrospective analysis to determine the classification of historical investments in the Mist Storage facility.[117]

In Reply Testimony, NW Natural explained that after its Initial Filing, the Company found that it had misclassified the forecasted Mist Storage capital projects. The correct classification should have been to the following FERC accounts: 8 percent to FERC account 351.10 (Well Structures); 23 percent to FERC account 352 (Wells); 21 percent to FERC account 354 (Compressor Station Equipment); 45 percent to FERC account 355 (Measuring/Regulating Equipment); and 3 percent to FERC account 367 (Mains). This reclassification results in a reduction to the Company's revenue requirement of $135,006.

NW Natural did not agree with AWEC that a retrospective analysis is necessary, however, because the Company has not previously applied a 60/40 allocation to actual costs that have been recorded, and the Company's classification of forecasted costs is entirely discrete from the classification of actual project costs. NW Natural explained that for this reason, the error in the Company's classification of forecasted costs does not suggest that a retrospective analysis is required.[118]

[116] *See* NW Natural/2100, Davilla/61; AWEC/100, Mullins/5.
[117] AWEC/100, Mullins/5.
[118] NW Natural/2100, Davilla/Page 62.

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to rate base of $1.769 million and an increase to expense of $31,000 due to a misclassification of Mist plant not yet in-service.

x) Removal of Lease Expense for 250 Taylor Lease Associated with three FTE

Q. Please describe the Stipulating Parties' agreement regarding the removal of lease expense for 250 Taylor Lease associated with three FTE.

A. In the Initial Filing, NW Natural did not allocate any operations center expenses to affiliate employees, as the Company did not plan at that time to locate any affiliate employees at 250 Taylor.[119] In Opening Testimony, AWEC recommended an adjustment of $164,750 to account for the fact that there will now be three affiliate employees located at the operations center.[120] In Reply Testimony, the Company agreed that an adjustment is appropriate, given the changed circumstances, but explained that AWEC had made a calculation error that, once corrected, would result in a reduction to Oregon-allocated O&M expenses for lease expense, operating expenses and tenant improvements of $8,943, and a reduction in rate base of $4,816, with an overall reduction in revenue requirement of $9,576.[121]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to rate base of $4,000 and a reduction to expense of $9,000.

y) Mist Compressor Study and Replacement Project

[119] NW Natural/2100, Davilla/46.
[120] AWEC/100, Mullins/21.
[121] NW Natural/2100, Davilla/45-47.

Q. Please describe the Stipulating Parties' agreement regarding the Mist Compressor Study and Replacement Project.

A. NW Natural included the Mist Compressor Study and Replacement Project in its Initial Filing. In Opening Testimony Staff identified this project as one that would not be used and useful by the rate effective date, since it is a study that pertains to future projects and specifically was incurred to gather the information necessary to present projects in the Integrated Resource Planning process.[122] Staff recommended an adjustment of $615,727 on an Oregon-allocated basis.[123] In Reply Testimony, the Company accepted Staff's adjustment and removed the study from this case.[124] Accordingly, the Comprehensive Stipulation incorporates a reduction to rate base of $630,000 and a reduction to expense of $12,000, to reflect that this project now will not be completed until after the Test Year in this rate case.

z) Category A Advertising

Q. Please describe the Stipulating Parties' agreement regarding Category A advertising.

A. The Commission's rules define Category A advertising expenses as "[e]nergy efficiency or conservation advertising expenses that do not relate to a Commission-approved program, utility service advertising expenses, and utility information advertising expenses."[125] In its Initial Filing, NW Natural included $1.750 million in Category A expenses for the Test Year, or approximately $2.54 per customer.[126]

[122] Staff/200, Fox/15.
[123] Staff/200, Fox/15.
[124] NW Natural/1400, Karney/8.
[125] NW Natural/800, Beck/2; OAR 860-026-0022(2)(a).
[126] NW Natural/800, Beck/3-4.

Staff agreed these expenses were reasonable.[127] CUB recommended an adjustment of $995,505 to reduce the recoverable expenses to 0.125 percent of gross operating revenue,[128] or approximately $1.14 per customer because CUB believed that the Company had not met its burden of proof to demonstrate that Category A expenses in excess of this amount are just and reasonable.[129] CUB raised concerns that portions of the Company's "Less We Can" campaign were being used to further its corporate image and promote RNG that was not yet on its system, and was therefore ineligible for cost recovery as a Category A expense. [130]

In Reply Testimony, the Company further explained its positions regarding the importance of television advertising in light of customer survey results and third-party research, the geographical diversity of the Company's service territory, the role of the Less We Can campaign in carbon reduction, and the need for Category A expenses in the face of a recession.[131]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to a reduction to expense of $350,000.

aa) Vancouver Retrofit

Q. Please describe the Stipulating Parties' agreement regarding the Vancouver Retrofit Project.

A. Through the discovery process, NW Natural identified that it had inadvertently included the costs of the Vancouver, Washington Retrofit Project in the Test Year and that its costs

[127] Staff/500, Beitzel/8.
[128] CUB/300, Pal-Gehrke/11.

[130] CUB/300, Pal-Gehrke/10.

[131] NW Natural/1900, Beck/5-16.

ought to be removed from the rate case. Accordingly, the Comprehensive Stipulation incorporates a reduction to rate base of $10.5 million and a reduction to expense of $240,000, to reflect that this project is located outside of, and does not relate to service provided in, Oregon.

IV. OTHER ISSUES

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

A. Yes, in addition to the agreement reflected in the Cost of Capital Stipulation, which is summarized below, the Stipulating Parties agreed to resolve several other issues.

a) Cost of Capital

Q. Please describe the Stipulating Parties' agreement regarding Cost of Capital.

A. The Stipulating Parties have agreed to incorporate by reference into the Comprehensive Stipulation the following components of Cost of Capital, which were included in the Cost of Capital Stipulation and are summarized in Table 2, below:

Table 2 – Cost of Capital Components

Agreed-upon Cost of Capital			
	Percent of Total Capital	Cost	Component
Long-Term Debt	50.0%	4.529%	2.265%
Common Equity	50.0%	9.40%	4.700%
Total	100.0%		6.965%

The Stipulating Parties have further agreed to incorporate by reference the Joint Testimony in Support of Stipulation Regarding Cost of Capital Issues provided by Brody Wilson, Dr. Bente Villadsen, Matt Muldoon, Moya Enright, and Bob Jenks. The Stipulating

Parties agree that, in the context of an overall settlement, the Stipulating Parties' agreement regarding cost of capital is reasonable.

b) Schedule 185/186 Credits

Q. Please describe the Stipulating Parties' agreement regarding Schedule 185/186 credits.

A. NW Natural is subject to a regulatory sharing mechanism associated with the revenues received from its operations at Mist and from the upstream optimization of pipeline assets.[132] Under Schedule 185, NW Natural applies a credit to customers' bills for interstate storage and related transportation services.[133] Under Schedule 186, customers are credited for the Oregon share of revenues that the Company receives for the optimization of core customer Pipeline and Storage capacity.[134] Historically, NW Natural has applied both Schedule 185 and Schedule 186 credits to customers' June bills.[135] In Opening Testimony, CUB proposed shifting the date to apply Schedules 185 and 186 credits to customers' January bills instead of June bills for the purpose of aligning these credits with the winter heating season, in which the Company experiences the highest demand for natural gas.[136] In Reply Testimony, NW Natural generally agreed with CUB's proposal with some small changes and clarifications, including applying the credit in February rather than January, which is still during the winter months when bills are highest, and also would provide the Company with adequate time to create, review and test billing outside of the holiday season.[137]

[132] NW Natural/1300, Kravitz/19.
[133] NW Natural/1300, Kravitz/19.
[134] NW Natural/1300, Kravitz/19-20.
[135] NW Natural/1300, Kravitz/20.
[136] CUB/100, Jenks/9-10.
[137] NW Natural/1300, Kravitz/20-22.

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed that NW Natural will change the timing of its issuance of customer credits under Schedules 185 and 186, moving the issuance of credits from June to February of each year. Beginning with the February 2022 credit, NW Natural will calculate credits over a one-year period ending on October 31 of each preceding year and will apply the credits to customers' bills in February. For the February 2021 credit, however, NW Natural will calculate that credit based on the January 1, 2020 through October 31, 2020 period. To effectuate this agreement NW Natural will file a new tariff schedule with its compliance filing in this docket, consistent with Exhibit NW Natural/1301.

c) Curtailment and Entitlement Revenues

Q. Please describe the Stipulating Parties' agreement regarding curtailment and entitlement revenues.

A. Curtailment revenue is revenue that NW Natural receives when an interruptible customer does not follow the Company's order to curtail service.[138] In its Initial Filing, the Company continued the practice of removing curtailment revenues from the Test Year estimate because these revenues are rare and cannot be relied upon in a forward estimate.[139] Under this practice, the Company would retain any curtailment revenues received.[140]

In Opening Testimony, CUB proposed tracking curtailment revenue into the Company's PGA and crediting these revenues to firm customers on a prospective basis, because interruptible customers that do not follow a curtailment order are using capacity

[138] NW Natural/2400, Walker/10.
[139] NW Natural/2400, Walker/11.
[140] NW Natural/2400, Walker/11.

paid for by firm customers.[141] Staff also took the position that curtailment revenues should not be included in determining the revenue requirement in the Test Year because curtailment revenue is unpredictable.[142] Similar to CUB, Staff proposed crediting prospective curtailment revenues back to firm customers, but only those revenues in excess of $250,000.[143] Finally, Staff proposed requiring the Company to credit back curtailment revenues it received in 2019.[144]

In Reply Testimony, the Company largely agreed with CUB's proposal.[145] NW Natural acknowledged there are occasions when curtailment revenue exceeds the incremental cost to the Company of implementing curtailment, and in those circumstances, it is reasonable for firm customers to receive the benefit of net curtailment revenues.[146] The Company disagreed with Staff's recommendation to establish a $250,000 threshold as not necessarily reflective of the incremental costs that the Company actually incurs during a curtailment event.[147] The Company proposed instead offsetting future curtailment revenues with identifiable incremental costs that result from the curtailment violation, implemented through a proposed new tariff schedule and a deferral mechanism.[148] Finally, the Company objected to Staff's proposal to require the Company to credit back curtailment revenues it received in 2019 as retroactive ratemaking.[149]

[141] CUB/100, Jenks/6-8.
[142] Staff/700, Soldavini/5-6.
[143] Staff/700, Soldavini/7-8.
[144] Staff/700, Soldavini/6-7.
[145] NW Natural/2400, Walker/12-13.
[146] NW Natural/2400, Walker/12-13.
[147] Natural/2400, Walker/14-16.
[148] Natural/2400, Walker/14-16.
[149] NW Natural/2400, Walker/12-13.

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed that, beginning in 2021, NW Natural will credit net curtailment and entitlement revenues[150] to firm sales customers through the PGA on an equal percent of margin basis; however, the amount of revenues to be credited to firm sales customers will be offset by identifiable incremental costs that result from a violation that gives rise to the curtailment or entitlement revenues. For example, the Company's losses through the weighted average cost of gas sharing mechanism as a result of exposure to higher commodity costs during a curtailment order would offset the curtailment revenues passed back to customers. Additionally, implementing curtailment orders may cause employees to work overtime, which reflect costs not otherwise reflected in the Company's revenue requirement that would be applied as an offset. To effectuate this agreement, NW Natural will file a new tariff schedule with its compliance filing in this docket, consistent with Exhibit NW Natural/2402.

d) Fuel Mix Communications

Q. Please describe the Stipulating Parties' agreement regarding fuel mix communications.

A. In Opening Testimony, CUB proposed that NW Natural be required to disclose its fuel mix to customers through bill inserts and on the Company's webpage, specifically with reference to the percentages of renewable and non-renewable gas in the Company's standard product being sold to retail customers.[151] In Reply Testimony, NW Natural

[150] Entitlement revenue is revenue that NW Natural receives when a transportation service customer does not follow the Company's order to control gas usage to be within a specified threshold percentage as detailed in its Tariff. *See* NW Natural Tariff P.U.C. Or. 25, Definitions (Entitlement, Overrun Entitlement and Underrun Entitlement) and Schedule T (Customer-Owned Natural Gas Transportation Service).
[151] CUB/100, Jenks/13.

agreed with this recommendation and explained that the Company plans to incorporate this messaging when NW Natural acquires renewable natural gas to serve customers.[152]

The Comprehensive Stipulation reflects that NW Natural will include information about its fuel mix (conventional natural gas vs. renewable natural gas) in annual customer communications beginning in the first year NW Natural has renewable natural gas on its system.

e) Oregon Corporate Activity Tax

Q. Please describe the Stipulating Parties' agreement regarding the Oregon Corporate Activity Tax.

A. The CAT is a new tax on businesses with commercial activity in Oregon, which is levied for the privilege of doing business in Oregon. It applies to all business entity types and includes businesses located inside and outside of Oregon. Businesses with taxable commercial activity in excess of $1 million must pay the CAT. The tax is $250 plus 0.57 percent of taxable commercial activity greater than $1 million after subtractions. Taxable commercial activity subject to the 0.57 percent tax rate is generally gross receipts from Oregon sources, less a subtraction for 35 percent of the greater of labor costs or the cost of goods sold related to Oregon gross receipts. The law passing the CAT did not become effective until September 29, 2019, and the tax applies to calendar years beginning January 1, 2020.[153] In December of 2019, the Company filed an application with the Commission to defer the CAT expense beginning January 1, 2020. At the time of the filing, the Company estimated that the CAT expense for calendar year 2020 would be approximately $2.5 million.

[152] NW Natural/1900, Beck/17.
[153] NW Natural/2300, Borgerson/2-3.

In its Initial Filing, NW Natural did not include Oregon's new Corporate Activity Tax in rates.[154] In Opening Testimony, CUB indicated that it does not object to the Company filing the deferral for the CAT, but its preference is to include the CAT expense in base margin rates on a prospective basis and avoid ongoing deferred accounting. As an initial placeholder, CUB indicated the original $2.5 million estimate from the deferral application could be included in margin rates and this amount could be updated later this year when final rules for the CAT have been established.[155]

Staff's Opening Testimony articulated a strong preference for inclusion of the CAT in base rates if it is reasonably estimable, as opposed to an ongoing deferral mechanism. Similar to CUB, Staff recommended including the original $2.5 million estimate from the deferral application in the revenue requirement in this case and consideration of one-time true up in the November 1, 2021 PGA.[156]

In Reply Testimony, NW Natural agreed to include CAT in base rates on a prospective basis, but the Company expressed a preference to include an amount in rates for the CAT that is based on the final revenue requirement determined in this case rather than the original $2.5 million CAT figure NW Natural estimated for calendar year 2020. The Company indicated it would also be supportive of an agreement to a review of the CAT calculation at a later date when the Oregon Department of Revenue rulemaking process is more complete to evaluate whether the CAT amount included in rates in this case should be adjusted.[157] NW Natural also identified its intention to include a CAT adjustment component in the annual PGA filing to reflect changes in gross revenue and

[154] NW Natural/1200, Anderson/8.
[155] CUB/200, Gehrke/12.
[156] Staff/200, Fox/27-28.
[157] NW Natural/2300, Borgerson/13.

cost of goods sold as a result of the PGA.[158] Finally, NW Natural proposed to include CAT deferred from January through June of 2020 in the compliance filing of this rate case for amortization over one year, and then include additional CAT deferred from July of 2020 through the effective date of this rate case in the November 2021 PGA for amortization over one year.[159]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed that NW Natural should begin to recover the CAT as of the rate effective date in this proceeding by increasing the annual revenue requirement reflected in Paragraph 1 of the Comprehensive Stipulation by $3.15 million, as summarized in Appendix B. The $3.15 million of CAT will be allocated on an equal percent of revenue basis after all other adjustments have been made and revenue has been established based on the revenue requirement increase.

The Stipulating Parties also agreed that the annual PGA adjustment should include a CAT component to reflect changes in gross revenue and cost of goods sold that occur as a result of the PGA. The CAT component will be allocated on an equal percent of revenue basis. For the 2020-21 gas year, the CAT component will be adjusted in the compliance filing to this rate case. For example, if the annual PGA filing would increase both cost of goods sold and revenue by $10,000, the CAT component would reflect an increase in CAT of $57 (0.57 percent of the revenue increase) offset by a CAT reduction of $19.95 (0.57 percent of the increase in cost of goods sold multiplied by 35 percent).

The Stipulating Parties further agreed that for purposes of calculating the CAT liability, the agreed-upon revenue requirement in this proceeding includes amounts for the

[158] NW Natural/2300, Borgerson/13-14.
[159] NW Natural/2300, Borgerson/14.

recovery of fees payable under ORS 756.310, right-of-way fees, franchise fees, privilege taxes, federal taxes and local taxes of $61.9 million (see Appendix B to the Comprehensive Stipulation).

The Stipulating Parties acknowledge that the calculation methodology used by NW Natural for annual Oregon State tax compliance filing purposes might differ in a fundamental way from the calculation methodology presented in Appendix B to the Comprehensive Stipulation, as a result of a prospective change in the underlying CAT legislation, a CAT rulemaking by the Oregon Department of Revenue (ODOR), a judicial proceeding, or an ODOR policy decision. Should this be the case, the Stipulating Parties agreed that NW Natural will defer a surcharge or credit to reflect the difference in calculation methodology and amortize the surcharge or credit at the time of NW Natural's next purchased gas adjustment. To be clear, it is anticipated that the annual CAT liability will differ from that in Appendix B as actual revenues and expenses change over time. The difference referred to in this provision addresses the underlying methodology for determining the annual CAT liability. This provision will remain effective through the rate effective date of NW Natural's next general rate case. To effectuate this agreement, NW Natural will amend its current deferral application in Docket UM 2068 to reflect this provision.

Additionally, the Stipulating Parties agreed that CAT deferred from January 2020 through June 2020 should be included in the compliance filing of this rate case for amortization over one year, and additional CAT deferred from July 2020 through the effective date of this rate case will be included in the November 2021 PGA for amortization over one year.

f) Decoupling Calculation Treatment for the Month of April

Q. Please describe the Stipulating Parties' agreement regarding the decoupling calculation treatment for the month of April.

A. In the Initial Filing, NW Natural proposed a minor adjustment to the Company's partial decoupling mechanism. Specifically, NW Natural proposed to use the Weather Adjusted Rate Mechanism's ("WARM") calculated therms as the weather adjustment in the month of April. This change was proposed to alleviate the "decoupling gap," where certain usage that occurs in April is not billed until after May 15th. When this occurs, the current methodology does not account for the fact that these therms are not covered by the WARM mechanism and is not decoupled from weather. This gap originally existed in the months of November and May but was corrected in 2006 and 2012, respectively, using the same methodology as the Company proposed for April in this filing.[160] In Opening Testimony, Staff found this adjustment to be warranted and recommended the Commission approve the Company's proposed change to the partial decoupling mechanism.[161]

The Comprehensive Stipulation reflects the Stipulating Parties' agreement that NW Natural will use the same decoupling calculation treatment for the month of April that it already is authorized to use for the months of November and May. To effectuate this agreement, NW Natural will file a revision to its tariff Schedule 190 (Partial Decoupling Mechanism) with its compliance filing in this docket.

[160] NW Natural/1000, Walker/10-11.
[161] Staff/1000, Gibbens/15.

g) Excess Deferred Income Taxes True-up Credit

Q. Please describe the Stipulating Parties' agreement regarding the Excess Deferred Income Taxes ("EDIT") True-up Credit.

A. The EDIT true-up represents the amount of revenue requirement that was over-collected due to the Company filing a rate case prior to the five-year amortization assumption of EDIT.[162] In the Initial Filing, NW Natural proposed a $1.039 million credit related to the EDIT true-up from UG 344.[163] The Company also proposed amortizing the true-up credit in the 2020-2021 PGA filing, which is made in mid-September 2020 prior to the expected final order in this rate case.[164]

In Opening Testimony, Staff recommended increasing the proposed true up credit from $1.039 million dollars to $1.261 million based on its belief that the Company made a particular adjustment (to escalate the over-collection of revenue requirement from the standard 12-month to 19-months) twice.[165]

In Reply Testimony, NW Natural explained that the Company did not make that adjustment twice, but rather, that the calculation requires a two-step process.[166] The Company also modified its proposal with respect to amortizing the true-up credit back to customers, proposing instead that the EDIT true-up credit be amortized with the same effective date as the 2020-2021 PGA, but be filed within the compliance filing of this case. Specifically, the Company proposed to adjust the temporary rate to include the EDIT true-up in the compliance filing.[167]

162 NW Natural/2400, Walker/16.
163 NW Natural/2400, Walker/16 (citing NW Natural/1103).
164 NW Natural/1000, Walker/Page 26.
165 Staff/200, Fox/28-29.
166 NW Natural/2400, Walker/16-17, 18.
167 NW Natural/2400, Walker/17.

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed that NW Natural should include the EDIT true-up credit of $1.039 million in the temporary rate in the compliance filing in this case and will amortize that amount with the effective date of the 2020-2021 PGA. The credit has two components, one attributable to unprotected and protected EDIT and the other to gas reserves EDIT. Unprotected and protected EDIT represents 65 percent, or $675,433, of the total credit to be allocated on an equal percent of margin basis. Gas reserves EDIT represents the remaining 35 percent, or $363,776, of the total credit to be allocated on an equal cent per therm basis to sales customers.

h) Historical Gas Reserves EDIT to Be Included in the PGA

Q. Please describe the Stipulating Parties' agreement regarding historical gas reserves EDIT to be included in the PGA.

A. Gas reserves ratemaking is addressed in NW Natural's PGA. Gas reserves represent a hedge to gas supplies, and the cost of the hedge is incorporated into the Company's weighted average cost of gas ("WACOG") each year.[168] In the Initial Filing, NW Natural proposed to include all historical amortization of EDIT related to gas reserves in the gas reserves model that is used to calculate the cost of service and gas reserves rates used in the PGA. This effectively would transfer all historical EDIT amortization to the gas reserves model where the impact to rate base would flow through the gas reserves rate in WACOG.[169]

The Comprehensive Stipulation reflects the Stipulating Parties' agreement that NW Natural will include all historical amortization of EDIT related to gas reserves in the

[168] NW Natural/1000, Walker/29.
[169] NW Natural/1000, Walker/29.

gas reserves model that is used to calculate the cost of service and gas reserves rates used in the PGA.[170]

i) Prospective Gas Reserves EDIT Amortization to Be Included in Temporary Rates

Q. Please describe the Stipulating Parties' agreement regarding prospective gas reserves EDIT amortization to be included in temporary rates.

A. In the Initial Filing, NW Natural expressed interest in discussing with the parties to this proceeding the possibility of moving prospective EDIT amortization from base rates to temporary rates due to the few years left of gas reserves amortization.[171]

The Comprehensive Stipulation reflects the Stipulating Parties' agreement that NW Natural will move prospective EDIT amortization from base rates to temporary rates to reflect the full amortization of the remaining balance.

j) Rate Spread and Rate Design

Q. Please describe the Stipulating Parties' agreement regarding rate spread and rate design.

A. In the Initial Filing NW Natural proposed to spread incremental revenue requirement such that costs will be more closely aligned to the indicated Long-Run Incremental Cost ("LRIC") study results across all rate classes, in a manner designed to move rate classes as a whole closer to parity based on their indicated cost causation, without causing rate shock.[172] To accomplish this goal, NW Natural proposed a three-step process for spreading the $71.4 million incremental revenue requirement. First, the Company proposed to calculate the revenue spread on an equal percent of margin basis for all rate

[170] The Stipulating Parties anticipated that the Commission order for UG 388 will likely come after the 2020-21 PGA filing. Therefore, the Stipulating Parties agreed that any adjustments to the gas reserves model will be made in the compliance filing to this proceeding.
[171] NW Natural/1000, Walker/29.
[172] NW Natural/1100, Wyman/38-39.

schedules, retaining this revenue allocation for the Rate Schedule ("RS") 2 Residential, RS 3 Commercial, and RS 27 Dry-Out rate schedules. Second, the Company proposed to add an additional $3.6 million in revenue spread to the RS 3 Commercial rate schedule amount calculated in Step 1. (This $3.6 million represents the amount of revenue generated by increasing the RS 3 Commercial base charge $5.00, from $15.00 per month to $20.00 per month.) Third, the Company proposed to reduce the revenue spread allocated to the RS 3 Industrial rate schedule and the RS 31 and RS 32 rate classes in Step 1 by $3.6 million on an equal percent of margin basis.[173]

In its Opening Testimony, Staff recommended a non-zero rate increase for large RS 31 and 32 commercial and industrial schedules, as well as RS 3 Industrial, only on condition that the Company is awarded an overall margin increase that exceeds 10 percent. Further, Staff recommended that any margin increase for these schedules should be capped at 8.2 percent. Staff recommended a rate increase for RS 2 Residential that is 0.5 percent greater than equal percent of margin based on the Company's proposed incremental revenue requirement, a rate increase of greater than equal percent of margin for RS 3 Commercial, and a less than equal percent of margin increase for RS 27 Dry-Out.[174]

Staff also proposed changes to the Company's proposed base charges. Specifically, Staff proposed to reduce the Company's proposed $5.00 increase of the RS 3 Commercial base charge to $3.00. The new base charge would be $18.00 under this proposal. Staff further proposed to increase the RS 27 Dry-Out base charge by $2.00 from $6.00 to $8.00, to make it the same as NW Natural's residential customer charge.[175]

[173] NW Natural/1100, Wyman/39.
[174] Staff/1100, Compton/15; NW Natural/2500, Wyman/22-23 & n.16.
[175] Staff/1100, Compton/21-22.

AWEC proposed that a customer impact offset ("CIO") adjustment standard be applied to spread rates. AWEC proposed a rate spread using the CIO adjustment based on the Company's initial LRIC study, with a margin increase cap and floor. The cap would be set such that no schedule would receive a percent margin increase greater than 1.5 times the overall percent margin increase. The floor would be set at zero percent and would apply to any schedule overpaying its cost of service as indicated by the Company's LRIC study. AWEC's proposal would result in no rate increase for large RS 31 and 32 commercial and industrial schedules, as well as RS 3 Industrial. RS 2 Residential and RS 3 Commercial would both receive a greater than equal percent of margin rate increase, and RS 27 Dry-Out would receive a less than equal percent of margin increase.[176]

In Reply Testimony, NW Natural agreed with Staff that it would be appropriate to increase the base charge on RS 27 Dry-Out from $6.00 to $8.00 to align fixed cost recovery with that of RS 2 Residential. The Company also proposed to shift its proposed $5.00 base charge increase fully to the volumetric rate such that customers in this schedule can choose to realize cost savings by reducing usage.[177]

As a result of their settlement discussions and in the context of the overall settlement, the Stipulating Parties have agreed to the rate spread and rate design as shown below, and as further detailed in Appendix C to the Comprehensive Stipulation.

[176] AWEC/100, Mullins/12-14.
[177] NW Natural/2500, Wyman/21-22, 27.

Revenue Requirement Including Corporate Activity Tax (CAT)

	Revenue % Increase	Dollars ($000's)/Yr. Increase	Average Bill Increase
Residential	8.52%	$ 33,273	$ 4.45
Commercial and Industrial	7.01%	$ 15,031	$ 19.50
Transport	4.44%	$ 690	$ 200.25
Overall	7.89%	$ 48,994	

k) Attestation

Q. Please describe the Stipulating Parties' agreement regarding attestation.

A. Staff, CUB, and AWEC each expressed concerns regarding certain capital projects that are not yet complete, but are scheduled to be completed prior to the November 1, 2020, rate effective date. To address this uncertainty, CUB and AWEC requested that NW Natural file an officer attestation for projects to be completed by October 31, 2020, that are forecast to cost over $1 million, and Staff noted the parties have agreed to a similar approach in previous dockets.[178] In Reply Testimony, NW Natural acknowledged that the Company has agreed in the past to file officer attestations confirming that capital projects were used and useful. The Company indicated it would be willing to do the same in this case for projects that are forecasted to cost over $1 million and that are completed by October 31, 2020.[179]

The Comprehensive Stipulation reflects the Stipulating Parties' agreement that NW Natural will file an attestation of a Company officer by October 5, 2020, attesting to whether any projects forecast to cost over $1 million and to be completed by October 31, 2020 will not be complete by this time. In the event that there are such projects, those

[178] Staff/200, Fox/9; CUB/200, Gehrke/10-11; AWEC/100, Mullins/15-16.
[179] NW Natural/1300, Kravitz/6.

projects will be removed from rate base for purposes of calculating the rates pursuant to the Comprehensive Stipulation, and rates adjusted accordingly.

Q. Please explain why the agreement in the Comprehensive Stipulation regarding attestations is reasonable.

A. During the course of settlement negotiations, the Stipulating Parties discussed at length whether all capital additions projects forecasted for completion prior to the rate effective date remained on target. Submitting attestations for those projects with completion dates by October 31, 2020, is consistent with Commission precedent and provides certainty and transparency regarding these projects.

V. SUPPORT FOR THE COMPREHENSIVE STIPULATION

Q. What is the basis for the Stipulation?

A. The Comprehensive Stipulation is a compromise based on the record in this case, which includes NW Natural's Initial Filing, the Opening Testimony of Staff, CUB, and AWEC, and NW Natural's Reply Filing. Over the course of the settlement discussions, the Stipulating Parties resolved all of their differences regarding all of the issues raised in this proceeding, and ultimately resolved in the Comprehensive Stipulation, through dialogue, negotiations, and compromise to reach a fair result.

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

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

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

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

a) NW Natural

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

A. NW Natural believes that each adjustment to its Initial Filing is supported by evidence in the record and is not contrary to Commission policy. As such the Comprehensive Stipulation represents a reasonable compromise of each of the issues raised in this case. Most importantly, NW Natural believes that overall, the rates produced by the Comprehensive Stipulation are fair, just, and reasonable.

Q. Does NW Natural agree with all policy and methodological approaches used to calculate the revenue requirement in the Comprehensive Stipulation?

A. While it is true that NW Natural does not agree with all specific methodologies used to produce each of the adjustments, the Company does support the Comprehensive Stipulation as a whole. NW Natural values the positive regulatory relationships furthered by all-party settlements and appreciates the opportunity to avoid the costs and risk associated with litigation.

Q. Are there any special circumstances that played a role in NW Natural's agreement to compromise on various specific issues?

A. Yes. The current economic environment, and the impact on the Company's customers, played a significant role in NW Natural's agreement to the Comprehensive Stipulation. At its core, this rate case sought to recover the costs of investments made on behalf of our customers in our system to continue to provide safe and reliable energy to their homes and businesses. System reinforcement projects located throughout our service territory and the replacement of our large dehydrator the Mist Storage Facility will allow NW Natural to provide service on the coldest days when our customers need our service the most. Additionally, our move to a new operational center at 250 Taylor Street in Portland provided the least-cost, least-risk option for the Company that prioritized the safety of our employees and our customers by finding a seismically resilient building that will remain operational in the event of large-scale earthquake. Likewise, our data center migration project migrated our data centers at our current office and our Sherwood facility to three separate locations, including one east of the Cascades, to ensure that our Company would have the IT&S resources available if there is a large seismic event. While we recognize that these are challenging times, the Comprehensive Settlement reflects a reasonable increase to rates that is based on years of planning for investments that will be completed and benefiting customers by the time our customers experience a rate change in November.

Additionally, in our Initial Filing, NW Natural asked the Commission to consider several changes to its past policies, which, if adopted, would have had the effect of allowing NW Natural to recover certain prudently-incurred costs that it has not recovered in recent rate cases. Specifically, NW Natural asked the Commission to allow full recovery of all employee and officer incentive pay, to reconsider its support for Staff's W&S Model (which prevents the Company from recovering market-based employee compensation), and to allow recovery for capital investments made in the forward Test Year. NW Natural continues to support the policies it advocated for in its Initial Filing and Reply Testimony. However, the Company also recognizes that implementation of its proposed policies would have incrementally increased its revenue requirement, and the rates ultimately approved by the Commission, at a time when Oregonians are facing financial hardships. For this reason, NW Natural agreed to revenue requirement adjustments that largely reflect the status quo on these issues.

b) OPUC Staff

Q. Ms. Gardner, please explain why Staff supports the Stipulation.

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

c) CUB

Q. Mr. Jenks, Please explain why CUB supports the Stipulation.

A. CUB supports the Stipulation as a reasonable compromise of all issues raised by all parties in this proceeding. CUB believes the Stipulation is in the public interest and will result in rates that are fair, just, and reasonable. The economic hardship faced by many of NW Natural's residential customers during the COVID-19 pandemic was at the forefront of CUB's mind and informed our advocacy throughout this proceeding. It was critically important to CUB that NW Natural's cost recovery in this proceeding be limited to costs essential for the provision of utility service. CUB believes the compromise embodied in this Stipulation reflects that premise. It was important for CUB that a portion of NW Natural's request for Category A advertising expense be disallowed, as CUB believes portions of the Company's advertising were more aligned with seeking corporate goodwill than providing actual information to customers. Again, CUB believes the compromise on Category A advertising encompassed in this Stipulation achieves this. CUB argued against the Company's proposal to include all discrete and non-discrete plant additions in the test year, including those that were scheduled to come online later in the test year. CUB's concerns were ameliorated by the compromise reached herein, but still believes Oregon's used and useful statute provides a demarcation of which investments are eligible for cost recovery and those that are not. Finally, CUB appreciates all Stipulating Parties' willingness to reach a resolution on all issues that is in the public interest. CUB appreciates NW Natural's willingness to clearly communicate and disclose its fuel mix once it has RNG on its system and the Company's willingness to accept CUB's proposal regarding curtailment penalties.

d) AWEC

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

A. AWEC believes the Comprehensive Stipulation is in the public interest and recommends the Commission approve the Comprehensive Stipulation because the best interests of NW Natural's customers are served by the underlying fair compromise on cost of capital, revenue requirement and rate spread and design issues. While the signing parties may each hold different positions on the individual components of NW Natural's rate case addressed in the Comprehensive Stipulation, AWEC supports the settlement as the agreement reached has brought down the overall gas revenue requirement increase from

$71.4 to $45.8 million. Further, although the parties held different views on rate spread and rate design issues, the parties have agreed to an allocation of costs that recognize the current rate disparities embedded in NW Natural's rate schedules. AWEC supports this Comprehensive Stipulation as an overall result that is a fair compromise between NW Natural and its customers.

For the reasons set forth above, AWEC believes the Stipulation is in the public interest and should be approved by the Commission.

Q. Does this conclude your testimony?

A. Yes.