



ALISHA TILL  
Direct (503) 290-3628  
alisha@mrg-law.com

August 10, 2022

**VIA ELECTRONIC FILING AND FEDEX MAIL**

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

**Re: Consolidated UG 435 / UG 411 / Application of NW Natural for a General Rate Revision / Schedule 198 Renewable Natural Gas Recovery.**

Attention Filing Center:

Attached for filing in the above-referenced docket is Northwest Natural Gas Company's Opening Brief.

Please note, this filing contains confidential and highly confidential information that represents business-sensitive, non-public information and will be provided subject to General Protective Order No. 21-461 and Modified Protective Order No. 21-465.

Please contact this office with any questions.

Sincerely,

Alisha Till  
Paralegal

Attachments

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UG 435 AND UG 411**

In the Matter of

NW NATURAL GAS COMPANY D/B/A  
NW NATURAL

Request for a General Rate Revision (UG  
435), and

Advice 20-19, Schedule 198 Renewable  
Natural Gas Recovery Mechanism (ADV  
1215) (UG 411).

**NORTHWEST NATURAL GAS  
COMPANY'S OPENING BRIEF**

**REDACTED**

August 10, 2022

## TABLE OF CONTENTS

I.	INTRODUCTION AND EXECUTIVE SUMMARY .....	1
II.	ARGUMENT REGARDING CONTESTED STIPULATIONS .....	5
	A. The First Stipulation.....	6
	1. The First Stipulation Resolved the Company’s Revenue Requirement, Cost of Capital, Rate Design, and Other Issues Among the First Stipulation Parties.....	6
	2. The Commission Should Reject the Coalition’s Objections to the First Stipulation and Instead Approve the First Stipulation as a Reasonable Resolution of the Issues Contained Therein. ....	7
	a) The Commission should reject the Coalition’s requested incremental reduction to NW Natural’s Advertising expense. ....	9
	(1) Background and Regulatory Context for Advertising Expense.....	9
	(2) The Agreement in the First Stipulation Regarding Advertising is Fair and Reasonable, and the Coalition’s Proposed Incremental Adjustment Is Unsupported and Should be Rejected. ....	11
	(a) The First Stipulation Parties Agree that the \$1.0 Million Adjustment to Category A and Category B Expenses Addresses Their Concerns. ....	12
	(b) The Commission Should Reject the Coalition’s Recommendations to Recategorize Category A and B Expenses as Category C Expense. ....	13
	(c) Even if the Commission Were Inclined to Consider the Coalition’s Adjustments to Advertising Expense, they Would Not Amount to More than the \$1.0 Million Adjustment that Is Already Provided in the First Stipulation.....	15
	(d) The Commission Should Reject the Coalition’s Argument Regarding Category D Advertising Expense.....	17
	b) The Commission should reject the Coalition’s request for an additional reduction to NW Natural’s Customer Account and Sales expense. ....	17
	c) The Commission should reject the Coalition’s request for an additional reduction to the salary and benefits expense for the Community Affairs and Government Affairs Employees.....	20
	B. The Second Stipulation .....	23

1.	The Second Stipulation Resolved Customer Deposits, Decoupling, the Oregon Low-Income Energy Efficiency Program, and the COVID-19 Deferral Among the Second Stipulation Parties. ....	23
2.	The Commission Should Reject SBUA’s Criticisms of the COVID-19 Deferral and Alternative Proposal, and Instead Adopt the Second Stipulation in Its Entirety. ....	26
	a) SBUA had ample time and opportunity to audit the COVID-19 deferral amounts. ....	27
	b) SBUA’s argument that small business customers did not benefit from COVID-19 rate relief should be rejected. ....	28
	c) The use of the rate spread from the First Stipulation does not violate the matching principle.....	29
	d) SBUA’s alternative proposal should be rejected. ....	31
III.	ARGUMENT REGARDING OTHER LITIGATED ISSUES IN THIS CASE.....	32
	A. Line Extension Allowance.....	32
	1. Background Regarding Line Extension Allowance .....	33
	a) Purpose of LEAs.....	33
	b) Commission precedent regarding LEAs .....	35
	c) NW Natural’s Schedule X .....	36
	2. CUB’s and the Coalition’s LEA Proposals.....	39
	3. This is Not the Right Docket to Consider Fundamental Changes to LEA Policy. ....	40
	4. It is Premature for the Commission to Consider the Proposed Changes to NW Natural’s LEA Prior to the Completion of the Next Cycle of Utility Resource Planning. ....	42
	5. The Record in This Case Does Not Support Parties’ Claims That the LEA Must Be Eliminated to Protect Customers or Address Climate Change. ....	43
	a) The Commission does not need to eliminate the LEA to combat climate change.....	43
	b) NW Natural can comply with the CPP at a reasonable cost while serving new customers.....	44
	c) There is no evidence in the record supporting the parties’ concern that customers will depart the gas system. ....	47
	d) Parties have not shown that building electrification is a viable, reliable, and cost-effective way of decreasing emissions and serving peak load in Oregon.....	50
	6. CUB’s Specific Proposals and Critiques of NW Natural’s LEA Are Not Valid.....	53
	a) CUB’s proposal will charge new customer for CPP compliance costs twice. ....	54

b)	CUB’s concern about the 30-year recovery period—and the concern regarding stranded assets—are not appropriately addressed by a return to a five-years-margin approach. ....	55
c)	CUB’s argument that eliminating the LEA will not create a barrier to customers joining the system is incorrect. ....	57
d)	CUB’s proposal to eliminate the presumption of prudence for LEA investments is misplaced. ....	59
7.	The Coalition’s Specific Proposals and Critiques Are Not Valid.....	60
a)	LEAs remain a vital and necessary tool for ensuring fairness among customers, and Mr. Burgess’s arguments to the contrary are unconvincing.....	65
b)	Mr. Burgess’s analysis of customer benefits under NW Natural’s current LEA is flawed.....	68
B.	RNG AAC .....	69
1.	Schedule 198 Will Provide Benefits to Both Customers and the Company if Approved. ....	72
2.	The Commission Should Reject the Parties’ Proposed Modifications and Instead Approve the Company’s Proposed Schedule 198 Because it Fairly Balances the Interests of Customers and the Company. ....	73
a)	Deferrals should be permitted between the in-service date & rate effective date.....	75
b)	AWEC’s proposed earnings test is inconsistent with ORS 757.390-398.....	79
c)	Deferral for differences between forecasted RNG costs and actual RNG costs.....	81
C.	Lexington RNG Project Cost of Service and Rate Spread.....	82
1.	No Party Questions the Prudence of the Lexington RNG Project. ....	83
2.	AWEC’s Arguments Against Amortizing the Lexington RNG Project Deferred Costs are Without Basis.....	85
3.	AWEC’s Proposed Disallowance of Distributions to BioCross, LLC is Without Merit. ....	87
4.	AWEC’s Tax Concern Has Already been Addressed in Docket UI 451. ....	90
5.	Costs Should be Allocated to all Non-Storage Customers.....	91
IV.	CONCLUSION .....	92

## TABLE OF AUTHORITIES

	<b>Page(s)</b>
<b>Cases</b>	
<i>Town of Norwood v. FERC</i> , 53 F3d 377 (D.C. Cir. 1995).....	29
<b>Public Utility Commission of Oregon Orders</b>	
<i>In re Nw. Nat. Gas Co., dba NW Nat., Request for a Gen. Rate Revision</i> , Docket UG 221, Order No. 12-408 (Oct. 26, 2012).....	36, 59
<i>In re NW Nat., Request for Approval of an Affiliated Interest Agreement with Lexington Renewables, LLC</i> , Docket UI 451, Order No. 21-194 (June 8, 2021) .....	90
<i>In re NW Nat., Request for Approval of an Affiliated Interest Agreement with Lexington Renewables, LLC</i> , Docket UI 451, Order No. 22-211 (June 7, 2022) .....	90
<i>In re PacifiCorp, dba Pac. Power, Request for a Gen. Rate Revision</i> , Docket UE 246, Order No. 12-493 (Dec. 20, 2012) .....	84
<i>In re Portland Gen. Elec. Co., Advice No. 20-14 (ADV 1130), Schedule 300 Line Extension Allowance</i> , Docket UE 385, Order No. 20-483 (Dec. 23, 2020) .....	35, 36, 65
<i>In re Pub. Util. Comm’n of Or. Investigation of Automatic Adjustment Clause Pursuant to SB 838</i> , Docket UM 1330, Order No. 07-572 (Dec. 19, 2007).....	29, 78
<i>In re Pub. Util. Comm’n of Or. Staff Request to Open an Investigation Related to Deferred Accounting</i> , Docket UM 1147, Order No. 05-1070 (Oct. 5, 2005).....	78
<i>In re Pub. Util. Comm’n of Or. Staff Request to Open an Investigation Related to Deferred Accounting</i> , Docket UM 1147, Order No. 06-507 (Sept. 6, 2006).....	78
<i>In re Rulemaking Regarding the 2019 Senate Bill 98 Renewable Nat. Gas Programs</i> , Docket AR 632, Order No. 20-227 (July 16, 2020) .....	77, 83

**Washington Utilities and Transportation Commission Orders**

*In re Chair Danner’s Motion to Consider Whether Nat. Gas Utils. Should Continue to Use the Perpetual Net Present Value Methodology to Calculate Nat. Gas Line Extension Allowances, WUTC Docket No. UG-210729, Order No. 01 (Oct. 29, 2021)* ..... 60, 61

**Statutes**

ORS 756.040 ..... 7

ORS 757.210 ..... 69

ORS 757.225 ..... 60

ORS 757.259 ..... 29, 80, 86

ORS 757.390 ..... *passim*

ORS 757.392 ..... 69

ORS 757.394 ..... 77, 80, 83

ORS 757.396 ..... *passim*

**Other Authorities**

OAR 860-001-0460 ..... 36

OAR 860-021-0050 ..... 35

OAR 860-021-0051 ..... 35

OAR 860-026-0022 ..... *passim*

OAR 860-150-0010 ..... 82

OAR 860-150-0050 ..... 82, 83

U.S. Code of Federal Regulations Title 49 Parts 192.616 and 195.440 ..... 15

1                                   **I.       INTRODUCTION AND EXECUTIVE SUMMARY**

2           Northwest Natural Gas Company, dba NW Natural (“NW Natural” or “Company”)  
3 requests a general rate revision in this proceeding to secure revenues necessary to  
4 provide safe and reliable natural gas service to customers in Oregon, while preserving  
5 the Company’s ability to attract capital for future investments. This rate case is driven by  
6 the completion of several long-planned investments in the safety and reliability of the  
7 Company’s operations, including modernizing Information Technology and Services  
8 (“IT&S”) systems by replacing end-of-life applications and moving more systems to the  
9 cloud, constructing seismically secure regional resource centers to provide continuity of  
10 service during emergencies and natural disasters, and several distribution system and  
11 storage operations projects that support system resiliency and efficiency. Additionally,  
12 the Company must comply with comprehensive federal cybersecurity regulations by  
13 investing significant resources into projects that are necessary to protect the Company’s  
14 information and infrastructure in the face of increasing cyber threats. Finally, the  
15 Company has completed development of the Lexington RNG Project, which represents  
16 a critical step in the Company’s efforts to decarbonize its service in furtherance of the  
17 State’s climate goals.

18           The parties to this case—Staff of the Public Utility Commission of Oregon (“Staff”),  
19 the Oregon Citizens’ Utility Board (“CUB”), the Alliance of Western Energy Consumers  
20 (“AWEC”), Small Business Utility Advocates (“SBUA”), and the Coalition of Communities  
21 of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon Environmental  
22 Council, Community Energy Project, and Sierra Club (collectively, “the Coalition”)—  
23 participated in multiple, productive settlement discussions. As a result, parties entered



1 two multi-party stipulations and collaboratively resolved the majority of issues in this case,  
2 and every party joined at least one stipulation.

3 NW Natural, Staff, CUB, AWEC, and SBUA settled most revenue requirement  
4 issues, including NW Natural's Cost of Capital, and resolved rate spread and certain other  
5 issues in the First Multi-Party Partial Stipulation filed with the Commission on May 31,  
6 2022 ("First Stipulation"). The Coalition was not a party to the First Stipulation and has  
7 since objected to certain elements of the First Stipulation. NW Natural, Staff, CUB,  
8 AWEC, and the Coalition agreed to resolve additional issues, including decoupling,  
9 residential customer deposits, the Oregon Low Income Energy Efficiency Program  
10 ("OLIEE"), and ratemaking treatment of the Company's COVID-19 costs in the Second  
11 Stipulation, which was filed with the Commission on June 29, 2022 ("Second Stipulation").  
12 SBUA was not a party to the Second Stipulation and has since objected to the COVID-19  
13 Deferral amortization and rate spread in the Second Stipulation.

14 The remaining issues requiring Commission resolution are:

15 (1) The Coalition's objections to the First Stipulation regarding NW Natural's  
16 recovery of customer communication (advertising) expense, customer account and sales  
17 expense, and salaries for its Community Affairs and Government Affairs groups;

18 (2) SBUA's objection to the Second Stipulation's resolution of the Company's  
19 COVID-19 Deferral amortization and rate spread;

20 (3) CUB's and the Coalition's proposals to eliminate the Company's Line Extension  
21 Allowance ("LEA") for new customers;

1 (4) The Company’s proposed Renewable Natural Gas (“RNG”) automatic  
2 adjustment clause (“AAC”) for recovery of the revenue requirement associated with  
3 prudently incurred investments in RNG to meet the targets in ORS 757.396; and

4 (5) Cost recovery and rate spread of the Lexington RNG project and deferral.

5 On these remaining issues, NW Natural respectfully requests that the Commission  
6 rule as follows:

- 7 • First Stipulation: Reject the Coalition’s request for further expense (and,  
8 thus, revenue requirement) reductions as unnecessary and approve the  
9 First Stipulation without modification because the integrated settlement  
10 represents a compromise position among the parties and appropriately  
11 resolves the revenue requirement issues, including the Company’s  
12 advertising expense, customer account and sales expense, and salaries for  
13 its Community Affairs and Government Affairs employees. Importantly, the  
14 Company’s advertising is truthful and accurate, and the Company’s request  
15 for cost recovery is consistent with the Commission’s rules and was reduced  
16 significantly through the agreement in the First Stipulation. Similarly, the  
17 First Stipulation represents a reasonable compromise on the Customer  
18 Account and Sales expense. Finally, the Community Affairs and  
19 Government Affairs activities the Coalition challenges are not political in  
20 nature, but instead relate to engagement with cities on key topics such as  
21 climate change and are crucial to NW Natural’s delivery of core utility  
22 service. The Commission should approve the First Stipulation without  
23 modification because it represents a reasonable resolution of the various

1 revenue requirement, cost of capital, rate spread, and other issues  
2 addressed therein.

- 3 • Second Stipulation: Reject SBUA's objections to the Second Stipulation and  
4 proposed alternative cost allocation proposal for the COVID-19 Deferral as  
5 unfounded and adopt the Second Stipulation as a reasonable resolution of  
6 the COVID-19 Deferral amortization and cost allocation. The Commission  
7 should approve the Second Stipulation without modification because it is an  
8 integrated settlement that also provides a reasonable resolution of other  
9 important issues in this proceeding, including data collection regarding the  
10 Company's decoupling mechanism, modifications to the collection of  
11 residential customer deposits, and enhanced benefits for the OLIEE  
12 program.

- 13 • Line Extension Allowance: Reject CUB's and the Coalition's proposals to  
14 eliminate the Company's LEA because they are inconsistent with sound  
15 economic principles on which this Commission's LEA policies are based  
16 and their specific proposals and critiques of NW Natural's LEA calculation  
17 also are not valid. Moreover, the Commission has insufficient information  
18 regarding the significant policy concerns motivating CUB's and the  
19 Coalition's proposals, and the information in the record does not support  
20 CUB's and the Coalition's claims that the LEA must be eliminated to protect  
21 customers from various risks. If the Commission wishes to reevaluate NW  
22 Natural's LEA in light of the policy concerns raised by CUB and the  
23 Coalition, it should do so in a generic docket including all gas, and

1 potentially also electric utilities, and under a schedule that will allow the  
2 parties to fully explore the relevant issues.

- 3 • Renewable Natural Gas AAC: Approve NW Natural's proposed Schedule  
4 198, which is an AAC designed to recover the costs of the Company's  
5 prudently incurred qualified investments in RNG, allow the Company to  
6 defer the costs between the in-service date of a new RNG-qualified  
7 investment and the rate effective date, allow NW Natural to defer the  
8 difference between forecasted and actual operating RNG costs, and do not  
9 subject the deferred amounts to an earnings test.

- 10 • Lexington RNG Project Cost of Service and Rate Spread: Adopt the  
11 Company's proposal to spread the revenue requirement associated with the  
12 Lexington RNG Project on an equal cents per therm basis to all customer  
13 classes, including customers with whom NW Natural has special contracts.  
14 Reject AWECC's proposal to consider the cost of the Lexington RNG Project  
15 in the context of the overall cost of service and rate spread.

## 16 II. ARGUMENT REGARDING CONTESTED STIPULATIONS

17 NW Natural requests that the Commission approve the two multi-party partial  
18 stipulations without modification. Together, the two stipulations resolve most of the issues  
19 in these consolidated proceedings, and the parties to those stipulations believe the  
20 compromises contained in the two stipulations will result in just and reasonable rates and  
21 a fair resolution of the issues addressed therein.

1 **A. The First Stipulation**

2 **1. The First Stipulation Resolved the Company’s Revenue Requirement,**  
3 **Cost of Capital, Rate Design, and Other Issues Among the First**  
4 **Stipulation Parties.**

5 The parties to the First Stipulation—NW Natural, Staff, CUB, AWEC, and SBUA  
6 (collectively, “First Stipulation Parties”)—agreed that the total increase to NW Natural’s  
7 annual Oregon revenue requirement amount will be \$62.654 million. The compromise on  
8 revenue requirement reflects a \$15.366 million reduction to the Company’s requested  
9 increase of \$78.020 million identified in its February 28, 2022 Errata Filing, and includes  
10 various adjustments identified in the First Stipulation.<sup>1</sup> The First Stipulation also resolved  
11 all cost of capital issues. Specifically, the First Stipulation Parties agreed to the following:  
12 9.4 percent return on equity (“ROE”), 50 percent long-term debt and 50 percent common  
13 equity capital structure, 4.271 percent cost of long-term debt, and an overall rate of return  
14 of 6.836 percent.<sup>2</sup> The First Stipulation resolved other issues, too, including: rate spread  
15 and design for the revenue requirement increase,<sup>3</sup> an attestation process for capital  
16 projects,<sup>4</sup> implementation of depreciation rates pending resolution of docket UM 2214,<sup>5</sup>  
17 Horizon 1 depreciation schedule,<sup>6</sup> Horizon 1 start-up cost deferral,<sup>7</sup> amortization of the  
18 Company’s TSA Security Directive 2 deferral balance,<sup>8</sup> removing the request to begin

---

<sup>1</sup> Multi-Party Stipulation Regarding Revenue Requirement, Rate Spread and Certain Other Issues at 3 (May 31, 2022) (“First Stipulation”).

<sup>2</sup> First Stipulation at 6-7.

<sup>3</sup> First Stipulation at 7.

<sup>4</sup> First Stipulation at 7-9.

<sup>5</sup> First Stipulation at 9.

<sup>6</sup> First Stipulation at 9-10.

<sup>7</sup> First Stipulation at 10.

<sup>8</sup> First Stipulation at 10.

1 amortizing the deferral of the Williams Pipeline Outage,<sup>9</sup> an update to the billing  
2 determinants for the Company's Schedules 183 and 197,<sup>10</sup> an update to the Company's  
3 Tariff Rule 11 regarding disconnection notices,<sup>11</sup> a cost study analysis of Tariff Rate  
4 Schedule 3 Non-Residential (Commercial),<sup>12</sup> a workshop related to the difference in fixed  
5 costs for residential multi-family versus residential single-family dwellings,<sup>13</sup> and, finally,  
6 the related tariff updates for these agreed upon items.<sup>14</sup> The First Stipulation Parties  
7 agree that the First Stipulation is in the public interest and will result in rates that are fair,  
8 just and reasonable, and consistent with the standard in ORS 756.040.<sup>15</sup>

9           **2. The Commission Should Reject the Coalition's Objections to the First**  
10           **Stipulation and Instead Approve the First Stipulation as a Reasonable**  
11           **Resolution of the Issues Contained Therein.**

12           The Coalition did not join in the First Stipulation<sup>16</sup> and objects to the following three  
13 revenue requirement provisions of the First Stipulation: Paragraph 1(l) – Advertising  
14 Expense,<sup>17</sup> Paragraph 1(m) – Customer Account and Sales Expense,<sup>18</sup> and Paragraph  
15 1(n) – Salary, Wages, Stock Expense, Incentives, and Medical Benefits.<sup>19</sup> In connection  
16 with Paragraph 1(l) – Advertising Expense, the Coalition recommends an additional  
17 \$183,512 reduction to the Company's advertising expense beyond the \$1.0 million

---

<sup>9</sup> First Stipulation at 10.

<sup>10</sup> First Stipulation at 10-11.

<sup>11</sup> First Stipulation at 11.

<sup>12</sup> First Stipulation at 11.

<sup>13</sup> First Stipulation at 11.

<sup>14</sup> First Stipulation at 11.

<sup>15</sup> First Stipulation at 12.

<sup>16</sup> First Stipulation at 1-2.

<sup>17</sup> Coalition/900, Ryan/2.

<sup>18</sup> Coalition/900, Ryan/33.

<sup>19</sup> Coalition/900, Ryan/34.

1 expense reduction reflected in the First Stipulation. Second, regarding Paragraph 1(m)  
2 – Customer Account and Sales Expense, the Coalition recommends an additional  
3 \$482,882 reduction to the Company’s customer account and sales expense beyond the  
4 \$292,000 reduction agreed to in the First Stipulation. Finally, regarding Paragraph 1(n)  
5 – Salary, Wages, Stock Expense, Incentives, and Medical Benefits, the Coalition  
6 recommends an additional [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]  
7 reduction to the Company’s revenue requirement for salary, wages, stock expense,  
8 incentives, and medical benefits beyond the \$5.25 million reduction reflected in the First  
9 Stipulation.

10 The First Stipulation represents a broad resolution of many of the contested issues  
11 in these consolidated proceedings, and none of the Coalition’s criticisms warrant rejection  
12 of the First Stipulation.<sup>20</sup> The First Stipulation Parties have asked the Commission to  
13 reject the Coalition’s request for further expense (and, thus, revenue requirement)  
14 reductions because the First Stipulation, if adopted, will result in rates that are fair, just,  
15 and reasonable, and is therefore in the public interest.<sup>21</sup> While the First Stipulation Parties  
16 did not necessarily agree upon all the methodologies used to determine each adjustment  
17 included in the First Stipulation, the parties agree that, collectively, the agreed upon  
18 adjustments represent a reasonable settlement of the issues in the First Stipulation.<sup>22</sup>  
19 Therefore, the First Stipulation Parties recommend that the Commission view the

---

<sup>20</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/18.

<sup>21</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/5.

<sup>22</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/5.

1 agreements in the First Stipulation as an integrated settlement and reject the Coalition’s  
2 objections to the First Stipulation.<sup>23</sup>

3           **a)     *The Commission should reject the Coalition’s requested***  
4           ***incremental reduction to NW Natural’s Advertising expense.***

5                   (1)     Background and Regulatory Context for Advertising Expense.

6           The Company incurs costs associated with advertising to inform and educate its  
7 customers as well as the general public, and seeks recovery of these advertising  
8 expenses in accordance with the Commission’s administrative rules in OAR Chapter 860,  
9 Division 26. The rules provide for different categories of expense based on the content  
10 of the advertising (customer communications), which have different presumptions for cost  
11 recovery prescribed by rule.<sup>24</sup> Category A advertising expense is for “[e]nergy efficiency  
12 or conservation advertising expenses that do not relate to a Commission-approved  
13 program, utility service advertising expenses, and utility information advertising  
14 expenses[.]”<sup>25</sup> By definition, Category A expenses include advertisements addressing  
15 environmental considerations and other contemporary items of customer interest.<sup>26</sup> In  
16 accordance with the Commission’s rules, Category A advertising expenses are presumed  
17 to be just and reasonable for ratemaking purposes up to an amount equal to 0.125 percent  
18 of NW Natural’s gross retail operating revenues.<sup>27</sup> In this case, the Company has

---

<sup>23</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermode/9 (asking the Commission to reject the Coalition’s objections to Paragraph 1(l)); *Id.* at 12 (asking the Commission to reject the Coalition’s objections to Paragraph 1(m)); *Id.* at 15-16 (asking the Commission to reject the Coalition’s objections to Paragraph 1(n)).

<sup>24</sup> OAR 860-026-0022(2) and (3).

<sup>25</sup> OAR 860-026-0022(2)(a).

<sup>26</sup> OAR 860-026-0022(1)(g) defines “Utility Information Advertising Expenses”—which are included in OAR 860-026-0022(2)(a)’s definition of Category A advertising expenses—to include advertising the primary purpose of which is to discuss “environmental considerations, and other contemporary items of customer interest[.]”

<sup>27</sup> OAR 860-026-0022(3)(a).



1 included customer communications educating customers about the efficient use of natural  
2 gas, Company services, the benefits of high-efficiency natural gas equipment, ways to  
3 reduce greenhouse gas emissions, climate regulation that the Company will be subject  
4 to, and Senate Bill (“SB”) 98, RNG, and the Company’s RNG investments as Category A  
5 expense.<sup>28</sup>

6 Category B advertising expense is for legally mandated advertising expenses<sup>29</sup>  
7 and is presumed to be just and reasonable for ratemaking purposes.<sup>30</sup> In this case, NW  
8 Natural included safety-related communications intended to ensure that NW Natural’s  
9 customers, contractors, public officials, emergency officials, and the general public within  
10 the NW Natural service territory know how to use natural gas safely, are prepared in the  
11 event of an earthquake, know how to recognize, react, and respond to a potential leak or  
12 safety issue related to natural gas and know how to prevent damages to underground  
13 utility pipelines.<sup>31</sup> The Company’s Category B advertising expense includes educational  
14 materials for school children addressing gas safety.

15 Category C advertising expense is institutional and promotional advertising  
16 expense<sup>32</sup> and the Company bears the burden of establishing that any Category C  
17 expense is just and reasonable for ratemaking purposes.<sup>33</sup> Category D advertising  
18 expense is for political and nonutility advertising<sup>34</sup> and Category E advertising expense is

---

<sup>28</sup> NW Natural/900, Beck/2-3.

<sup>29</sup> OAR 860-026-0022(2)(b).

<sup>30</sup> OAR 860-026-0022(3)(b).

<sup>31</sup> NW Natural/1900, Beck/5.

<sup>32</sup> OAR 860-026-0022(2)(c).

<sup>33</sup> OAR 860-026-0022(3)(c).

<sup>34</sup> OAR 860-026-0022(2)(d).

1 for conservation or energy efficiency advertising that relates to a Commission-approved  
2 program.<sup>35</sup> Category D advertising expenses are presumed to be not just and  
3 reasonable<sup>36</sup> and Category E advertising expenses may be capitalized.<sup>37</sup> NW Natural  
4 did not request recovery of Category C,<sup>38</sup> Category D, or Category E advertising  
5 expense.<sup>39</sup> Because NW Natural did not seek recovery for Category C, D, or E  
6 advertising, there is no need for the Company to include a detailed description of those  
7 costs as part of this rate case.

8 (2) The Agreement in the First Stipulation Regarding Advertising  
9 is Fair and Reasonable, and the Coalition's Proposed  
10 Incremental Adjustment Is Unsupported and Should be  
11 Rejected.

12 The Coalition argues that the proposed reduction of \$1.0 million to the Company's  
13 advertising expense reflected in Paragraph 1(l) is too low because it does not remove all  
14 costs that the Coalition argues are not recoverable as either Category A or Category B  
15 advertising expenses.<sup>40</sup> Specifically, the Coalition alleges that NW Natural's advertising  
16 campaigns regarding Cooking with Gas, RNG investments, and indoor air quality do not  
17 constitute Category A advertising.<sup>41</sup> Additionally, the Coalition argues that costs  
18 associated with NW Natural's safety-related school booklets should not be recoverable  
19 as Category B advertising.<sup>42</sup> The Coalition also expresses concerns about the Company

---

<sup>35</sup> OAR 860-026-0022(2)(e).

<sup>36</sup> OAR 860-026-0022(3)(d).

<sup>37</sup> OAR 860-026-0022(3)(e).

<sup>38</sup> NW Natural/900, Beck/20.

<sup>39</sup> NW Natural/2700, Beck/6.

<sup>40</sup> Coalition/900, Ryan/2.

<sup>41</sup> Coalition/900, Ryan/31.

<sup>42</sup> Coalition/900, Ryan/33.

1 not charging any expenses to Category D (political) advertising.<sup>43</sup> Finally, the Coalition  
2 asks the Commission to disallow 61 percent of the total salary cost (\$390,286) from NW  
3 Natural's Category A advertising budget to reflect the Coalition's estimate of salary time  
4 spent on RNG advertising.<sup>44</sup> In sum, the Coalition asks the Commission to adjust the  
5 Company's Category A and Category B advertising expense by \$1,183,512—or an  
6 additional \$183,512 beyond the \$1.0 million expense reduction agreed to in the First  
7 Stipulation.<sup>45</sup>

8 (a) *The First Stipulation Parties Agree that the \$1.0 Million*  
9 *Adjustment to Category A and Category B Expenses*  
10 *Addresses Their Concerns.*

11 NW Natural—along with the other First Stipulation Parties—disagrees with the  
12 Coalition's proposed reductions to the Company's Category A and Category B advertising  
13 expense and recommendation to increase the \$1.0 million adjustment for NW Natural's  
14 advertising expense by \$183,512.<sup>46</sup> Staff and CUB initially expressed concerns about  
15 certain Category A and Category B advertising expenses, which were similar in nature to  
16 the concerns raised by the Coalition.<sup>47</sup> However, the First Stipulation Parties ultimately  
17 agreed to reduce the amount included in rates for Category A down to 0.125 percent of  
18 the Company's gross operating expenses—the amount presumed reasonable under the  
19 administrative rules<sup>48</sup>—and to remove some Test Year expense for Category B

---

<sup>43</sup> Coalition/900, Ryan/2-3.

<sup>44</sup> Coalition/900, Ryan/32.

<sup>45</sup> Coalition/900, Ryan/33.

<sup>46</sup> NW Natural/2700, Beck/8-9, 17-18; NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/11.

<sup>47</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/10 (citing NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/22).

<sup>48</sup> OAR 860-026-0022(3)(a).

1 advertising. In total, these adjustments amounted to a \$1.0 million reduction to the  
2 Company's advertising expense.<sup>49</sup> The First Stipulation Parties provided Joint Reply  
3 Testimony indicating that they agree that the \$1.0 million reduction to NW Natural's  
4 advertising expense adequately addresses Staff's and CUB's concerns about the  
5 Company's level of Category A and Category B advertising expense while also enabling  
6 resolution of other key issues encompassed in the First Stipulation and allowing the  
7 Company to recover a reasonable advertising budget.<sup>50</sup>

8 (b) *The Commission Should Reject the Coalition's*  
9 *Recommendations to Recategorize Category A and B*  
10 *Expenses as Category C Expense.*

11 Furthermore, NW Natural fundamentally disagrees with the Coalition's efforts to  
12 recategorize Category A and Category B expenses as Category C expense. First, the  
13 Coalition makes the unfounded argument that the Company's RNG advertising is  
14 misleading and meant to promote the Company's corporate image, and therefore properly  
15 categorized as Category C (institutional advertising).<sup>51</sup> In fact, the Company's RNG  
16 advertising is truthful, accurate, and intended to educate our customers about RNG and  
17 the Company's decarbonization plans and is therefore properly recoverable as Category  
18 A advertising expense.<sup>52</sup> As described above, Category A expenses include  
19 advertisements addressing environmental considerations and other contemporary items

---

<sup>49</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/10-11 (citing NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/23).

<sup>50</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/11.

<sup>51</sup> Coalition/900, Ryan/7.

<sup>52</sup> NW Natural/1900, Beck/8-9; NW Natural/2700, Beck/17.

1 of customer interest, and thus the RNG advertising fits squarely within the definition of  
2 Category A advertising.<sup>53</sup>

3 Second, the Coalition criticizes the Company's advertising regarding proper use of  
4 ventilation, and asserts that it should be considered Category C promotional advertising  
5 because it "seeks to encourage the public to continue to use gas stoves despite the known  
6 risks[.]"<sup>54</sup> The assertions should be rejected because the Company uses these customer  
7 communications to encourage customers to use proper ventilation when cooking and  
8 therefore correctly categorized these advertisements as Category A expense.<sup>55</sup>

9 Third, the Coalition asserts that the Company's safety booklets that are made  
10 available to schools are meant to "promote the benefits of gas utility service to school  
11 children."<sup>56</sup> This assertion should be rejected, however, because these safety booklets  
12 provide critical safety-related content in an age-appropriate way<sup>57</sup> and are commonly  
13 used throughout the energy industry.<sup>58</sup> Indeed, one of the primary messages in the safety  
14 booklets is to inform children about the odorizer in natural gas, and that they should tell  
15 an adult and leave the building if they smell the odorizer.<sup>59</sup> Thus, NW Natural relies on  
16 these booklets to provide important safety information to the "affected public" in

---

<sup>53</sup> OAR 860-026-0022(1)(g) defines "Utility Information Advertising Expenses"—which are included in OAR 860-026-0022(2)(a)'s definition of Category A advertising expense—to include advertising the primary purpose of which is to discuss "environmental considerations, and other contemporary items of customer interest[.]"

<sup>54</sup> Coalition/900, Ryan/17.

<sup>55</sup> NW Natural/1900, Beck/19; NW Natural/2700, Beck/17-18.

<sup>56</sup> Coalition/900, Ryan/19.

<sup>57</sup> NW Natural/1900, Beck/30-31.

<sup>58</sup> NW Natural/1900, Beck/27.

<sup>59</sup> NW Natural/1900, Beck/28.

1 accordance with federal regulations<sup>60</sup> and the school safety booklets therefore are  
2 appropriately recoverable as Category B “legally mandated” advertising expense.

3 NW Natural asks the Commission to reject these unsupported attempts to  
4 challenge the appropriate classification of the Company’s advertising expenses.

5 (c) *Even if the Commission Were Inclined to Consider the*  
6 *Coalition’s Adjustments to Advertising Expense, they*  
7 *Would Not Amount to More than the \$1.0 Million*  
8 *Adjustment that Is Already Provided in the First*  
9 *Stipulation.*

10 NW Natural demonstrated in its Surrebuttal Testimony that even if the Commission  
11 were inclined to consider the Coalition’s objections and proposed adjustments regarding  
12 advertising expense, after addressing the errors in the assumptions underlying the  
13 Coalition’s calculations, the Coalition’s adjustment would total to **less than** the \$1 million  
14 reduction to expense reflected in the First Stipulation.<sup>61</sup> First, the Coalition’s proposed  
15 disallowance of \$246,471 related to the Cooking with Gas campaign<sup>62</sup>—a campaign that  
16 both NW Natural and the Coalition agree constitutes Category C advertising—should be  
17 reduced to \$124,221 because \$122,250 has already been booked to Category C.<sup>63</sup>  
18 Second, the Coalition’s proposal to further reduce the Company’s advertising expense by  
19 \$69,328 for media buying costs associated with Bing and Google advertisements about

---

<sup>60</sup> NW Natural/1900, Beck/26-27; NW Natural/2700, Beck/17. In accordance with U.S. Code of Federal Regulations Title 49 Parts 192.616 and 195.440 and standards administered by the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration, NW Natural has a federally mandated obligation to comply with the Public Safety Awareness Plans described in American Petroleum Institute’s Recommended Practice 1162.

<sup>61</sup> NW Natural/2700, Beck/22.

<sup>62</sup> Coalition/900, Ryan/7. Although the Coalition refers to it as the “Cooking with Gas” campaign, the “Preference” advertising is the broader category classified as Category C advertising. Accordingly, throughout this brief and NW Natural’s Surrebuttal Testimony NW Natural refers to the discrete campaign and broader category as appropriate.

<sup>63</sup> NW Natural/2700, Beck/13.

1 cooking with gas and indoor air quality<sup>64</sup> is excessive and should be reduced to \$46,214  
2 because approximately one third of these media buying costs were for advertisements  
3 (indoor air quality, power outage tips) appropriately booked as Category A expense.<sup>65</sup>  
4 Third, the Coalition seeks to further reduce the Company's advertising expense by asking  
5 the Commission to disallow approximately 61 percent (\$390,286) of the total salary cost  
6 in NW Natural's Category A advertising budget for its estimate of staff time and overhead  
7 allocated to RNG advertising, which the Coalition argues is primarily intended to support  
8 the Company's brand and thus should be a Category C expense.<sup>66</sup> The Commission  
9 should reject this proposal outright because the Company has appropriately categorized  
10 the RNG advertising as a Category A expense.<sup>67</sup> Alternatively, this adjustment should be  
11 reduced by at least \$137,173 because the Coalition included costs *wholly unrelated* to  
12 RNG advertising to arrive at its estimate for RNG advertising of 61 percent, and therefore  
13 significantly overstated the staff time and overhead expense associated with RNG  
14 advertising.<sup>68</sup> In sum, the Company substantively disagrees with the Coalition's  
15 objections, but even if the Commission were to agree with the substance of the Coalition's  
16 objections, the total proposed reduction—accounting for the corrections discussed  
17 above—would amount to less than the \$1 million reduction to expense reflected in the  
18 First Stipulation.<sup>69</sup> This result further supports the reasonableness of the compromise

---

<sup>64</sup> Coalition/900, Ryan/31.

<sup>65</sup> NW Natural/2700, Beck/15-16.

<sup>66</sup> Coalition/900, Ryan/32.

<sup>67</sup> NW Natural/2700, Beck/19.

<sup>68</sup> NW Natural/2700, Beck/19-20. As shown in NW Natural/2705, Beck, the RNG costs comprise—at most—40 percent of the Company's Category A advertising budget. NW Natural/2705, Beck/1. However, because NW Natural does not track staff time for each advertising campaign, it provides this more conservative estimate. NW Natural/2700, Beck/20.

<sup>69</sup> NW Natural/2700, Beck/21.

1 regarding advertising expense achieved in the First Stipulation. Conversely, granting the  
2 Coalition's request to further reduce the Company's advertising expense would  
3 unreasonably disturb the balancing of interests reflected in the totality of the First  
4 Stipulation.

5 *(d) The Commission Should Reject the Coalition's*  
6 *Argument Regarding Category D Advertising Expense.*

7 Finally, the Commission should reject the Coalition's assertion that the Company  
8 should have declared and budgeted certain advertisements as Category D (political)  
9 advertising expense.<sup>70</sup> The First Stipulation Parties explained that the First Stipulation  
10 addresses all their concerns regarding NW Natural's advertising expense and that no  
11 other modifications should be made, and thus the Coalition's argument regarding  
12 Category D (political) advertising expense should be rejected.<sup>71</sup> Importantly, because  
13 there is no Category D advertising expense included in the Company's request for cost  
14 recovery, there is no need to further describe that type of expense (political and non-utility  
15 advertising) in this case.

16 *b) The Commission should reject the Coalition's request for an*  
17 *additional reduction to NW Natural's Customer Account and*  
18 *Sales expense.*

19 The Coalition recommends an additional \$482,882 reduction to FERC accounts  
20 908 and 912—beyond the \$292,000 reduction reflected in Paragraph 1(m) of the First  
21 Stipulation—for NW Natural's customer account and sales expense to reflect costs  
22 related to advertising that referenced shareholder incentives for gas appliances.<sup>72</sup> The

---

<sup>70</sup> Coalition/900, Ryan/2-3.

<sup>71</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/10.

<sup>72</sup> Coalition/900, Ryan/33.



1 proposed incremental reduction of \$482,882 represents the total Oregon-allocated Test  
2 Year expense for advertising that included shareholder incentives for appliances and  
3 includes marketing program manager salary, program manager payroll overhead, agency  
4 fees, postage, and cooperative advertising.<sup>73</sup> The Coalition asserts that NW Natural has  
5 admitted that similar advertising costs related to natural gas preference must be  
6 categorized as Category C advertising, but the Company did not record the customer  
7 account and sales expense to Category C, and instead booked the expenses to FERC  
8 Accounts 908 and 912, which are paid for by customers.<sup>74</sup> Additionally, the Coalition  
9 asserts that NW Natural is using customer funds to promote fuel-switching to natural gas,  
10 and asks the Commission to open a new docket to align Energy Trust of Oregon (“Energy  
11 Trust”) incentives and programs with Oregon’s climate laws and Governor Brown’s  
12 Executive Order 20-04.<sup>75</sup>

13 The Commission should reject the Coalition’s proposed incremental reduction to  
14 NW Natural’s customer account and sales expense because the \$292,000 reduction  
15 agreed to by the First Stipulation Parties will result in just and reasonable rates and is  
16 therefore in the public interest.<sup>76</sup> As the First Stipulation Parties explained in their Joint  
17 Reply Testimony, they agreed to reduce NW Natural’s customer account and sales  
18 expense by \$292,000 as part of the give and take of settlement and agree that this  
19 adjustment should be approved as a reasonable settlement of this category of expense.<sup>77</sup>

---

<sup>73</sup> Coalition/900, Ryan/23; Coalition/919, Ryan/1 (NW Natural Response to Coalition DR 203).

<sup>74</sup> Coalition/900, Ryan/33. Note that although the Coalition’s testimony references FERC Accounts 408 and 412 and 908 and 912, the correct numbering for the accounts related to this category of expense is 908 and 912.

<sup>75</sup> Coalition/900, Ryan/34.

<sup>76</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/10.

<sup>77</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/13.

1 Furthermore, as NW Natural explained in its response to a Coalition data request and  
2 testified in its Surrebuttal Testimony, it would be inaccurate to characterize the entirety of  
3 these expenses as connected only to the shareholder incentive, and it is reasonable for  
4 the Company to educate new and existing customers about the full spectrum of energy  
5 efficiency rebates and other offerings available to them.<sup>78</sup> The Company does, however,  
6 acknowledge there could be greater clarity regarding the categorizing of advertising  
7 associated with shareholder incentives and will perform a comprehensive review and  
8 analysis of the advertising costs in FERC Accounts 908 and 912 before filing its next rate  
9 case.<sup>79</sup>

10 The First Stipulation Parties do not support the Coalition's request to open a new  
11 docket to align Energy Trust incentives and programs with Oregon's climate laws and  
12 Governor Brown's Executive Order 20-04.<sup>80</sup> Given the compromises reached on various  
13 issues to enter into the First Stipulation, the First Stipulation Parties ask that the  
14 Coalition's proposal be rejected.<sup>81</sup> As NW Natural explained in its Surrebuttal Testimony,  
15 the Energy Trust incentives promote the installation of higher efficiency equipment, which  
16 will necessarily result in carbon reduction and further the State's climate goals.<sup>82</sup> Thus,  
17 the Energy Trust incentives are already aligned with the State's climate goals, and there  
18 is no need for further investigation.<sup>83</sup> Additionally, contrary to the Coalition's assertions

---

<sup>78</sup> NW Natural/2800, Frankel-Moerlins/8.

<sup>79</sup> NW Natural/2800, Frankel-Moerlins/9.

<sup>80</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/13-14.

<sup>81</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/14.

<sup>82</sup> NW Natural/2800, Frankel-Moerlins/10.

<sup>83</sup> NW Natural/2800, Frankel-Moerlins/10.

1 in its Objection Testimony,<sup>84</sup> NW Natural provided Surrebuttal Testimony explaining that  
 2 fuel-switching from electric to natural gas is not occurring as a result of the Energy Trust  
 3 incentives.<sup>85</sup> For the foregoing reasons, the Coalition’s proposals regarding the Customer  
 4 Account and Sales expense and Energy Trust incentive investigation should be rejected.

5 **c) The Commission should reject the Coalition’s request for an**  
 6 **additional reduction to the salary and benefits expense for the**  
 7 **Community Affairs and Government Affairs Employees.**

8 The Coalition objects to the First Stipulation’s \$5.25 million<sup>86</sup> adjustment to  
 9 revenue requirement for salary, wages, stock expense, incentives, and medical benefits  
 10 described in Paragraph 1(n) because the proposed reduction does not explicitly include  
 11 the removal of staff time spent on political engagement with Oregon cities and counties.<sup>87</sup>  
 12 The Coalition requests that the Commission disallow all costs associated with NW  
 13 Natural’s Community Affairs and Government Affairs programs based on the Coalition’s  
 14 view that these programs primarily engage in political activities that are not recoverable  
 15 from customers.<sup>88</sup> The Coalition proposes a negative adjustment of **[BEGIN**  
 16 **CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**, in addition to the \$5.25 million  
 17 adjustment already agreed to by parties to the First Stipulation.<sup>89</sup>

18 The Coalition asserts that “[p]olitical activities such as those NW Natural is  
 19 engaged in are generally not recoverable from ratepayers.”<sup>90</sup> Specifically, the Coalition

---

<sup>84</sup> Coalition/900, Ryan/28, 34.

<sup>85</sup> NW Natural/2800, Frankel-Moerlins/12.

<sup>86</sup> Coalition/900, Ryan/34. The Coalition’s testimony references \$4.5 million as the value of the agreed upon reduction to salaries and benefits. *Id.* However that amount was an adjustment to Test Year rate base in recognition of all past capitalized financial performance-based incentives. The value of the revenue requirement adjustment for salaries and benefits is \$5.25 million. First Stipulation at 5.

<sup>87</sup> Coalition/900, Ryan/34.

<sup>88</sup> Coalition/900, Ryan/42.

<sup>89</sup> Coalition/900, Ryan/43 (citing First Stipulation at 5).

<sup>90</sup> Coalition/900, Ryan/40.

1 asserts that the Commission does not allow for recovery of costs incurred to “influence  
2 the outcome of the political process or other ‘community activities’” and the rationale  
3 behind this policy is the belief that “ratepayers should not be required to contribute to the  
4 advancement of political positions in which they may not believe.”<sup>91</sup> However, the  
5 Coalition’s reliance on these cases is misplaced because both cases support a  
6 proposition that is not disputed in this case: that costs for lobbying and other activities  
7 that are primarily political are not recoverable from customers.<sup>92</sup> NW Natural is not  
8 seeking to recover its costs for lobbying or other activities that are primarily political in  
9 nature. As NW Natural explained in its Reply Testimony, the Company has specific cost  
10 allocations for employees that are engaged in lobbying and/or political activity, which are  
11 inclusive of salary and overhead, and records these cost allocations to non-recoverable  
12 accounts.<sup>93</sup> In this case, the Community and Government Affairs expense for which the  
13 Company seeks cost recovery is comprised of employee time spent on core utility  
14 activities that are necessary to provide safe and reliable gas service.<sup>94</sup>

15 The Commission should reject the Coalition’s proposed adjustment regarding the  
16 salaries for NW Natural’s Community and Government Affairs employees. As the First  
17 Stipulation Parties testified, the Commission should view the agreements in the First  
18 Stipulation as an integrated settlement and reject the Coalition’s proposed adjustment to  
19 Paragraph 1(n) because the compromises contained in the First Stipulation—including

---

<sup>91</sup> Coalition/900, Ryan/40 (citing *Re Portland Gen. Elec. Co.*, UE 115, Order No. 01-777, 212 P.U.R. 4th 1, 10 (Aug. 31, 2001) and *Re Pac. Nw. Bell Tel. Co.*, UT 43, Order No. 87-406, 82 P.U.R. 4th 293, 320 (1987)).

<sup>92</sup> NW Natural/2400, Heiting-Bracken/40.

<sup>93</sup> NW Natural/2400, Heiting-Bracken/78.

<sup>94</sup> NW Natural/2400, Heiting-Bracken/41.

1 the \$5.25 million revenue requirement reduction for this category of expense—are in the  
2 public interest and will result in just and reasonable rates.<sup>95</sup> The First Stipulation Parties  
3 maintained different views regarding the appropriate approach for determining the  
4 amount of salary, wages, stock expense, incentives, and medical benefits that should be  
5 included in NW Natural's rates, but through discussion and compromise, were able to  
6 reach a resolution that was fair and reasonable for purposes of settlement.<sup>96</sup> The First  
7 Stipulation Parties also agreed to a significant adjustment for past capitalized incentives,  
8 which further aids in the resolution of the issues in this proceeding and contributes to the  
9 overall fair resolution of issues in the First Stipulation.<sup>97</sup> In contrast, the Coalition's  
10 proposal to disallow the entirety of NW Natural's Community Affairs and Government  
11 Affairs expense is excessive and unnecessary to achieve a fair resolution of these  
12 issues.<sup>98</sup>

13 Furthermore, as NW Natural explained in Surrebuttal Testimony, Company  
14 employees discussing GHG emissions strategies—including potential “gas bans”—with  
15 cities, and responding to municipal-level climate-action-planning requests for data, are  
16 not engaged in political activities.<sup>99</sup> In fact, conversations with cities and counties  
17 regarding policies that will affect NW Natural's customers are crucial to the Company's  
18 delivery of utility service and therefore the costs related to such discussions are  
19 recoverable in utility rates.<sup>100</sup> Importantly, these cities expect NW Natural to be engaged

---

<sup>95</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/16.

<sup>96</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/16.

<sup>97</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/16.

<sup>98</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/16.

<sup>99</sup> NW Natural/2400, Heiting-Bracken/39.

<sup>100</sup> NW Natural/2400, Heiting-Bracken/39.

1 and routinely seek the Company’s input on these matters.<sup>101</sup> The First Stipulation Parties  
2 resolved the Company’s revenue requirement issues in a fair and reasonable manner  
3 and agree that the Commission should reject the Coalition’s proposal<sup>102</sup> to disallow the  
4 entirety of NW Natural’s Community Affairs and Government Affairs expense.<sup>103</sup>

5 As the First Stipulation Parties testified in their Joint Reply Testimony to the  
6 Coalition’s Objections, each adjustment to NW Natural’s request for a general rate  
7 revision within the First Stipulation is supported by substantial evidence in the record, is  
8 not contrary to Commission policy, and the First Stipulation should therefore be adopted  
9 in its entirety as a reasonable settlement of the issues addressed therein.<sup>104</sup> Conversely,  
10 granting the Coalition’s proposals to further reduce the Company’s revenue requirement  
11 would disturb the balancing of interests reflected in the First Stipulation and should be  
12 rejected.

## 13 **B. The Second Stipulation**

### 14 **1. The Second Stipulation Resolved Customer Deposits, Decoupling, the** 15 **Oregon Low-Income Energy Efficiency Program, and the COVID-19** 16 **Deferral Among the Second Stipulation Parties.**

17 The parties to the Second Stipulation—NW Natural, Staff, CUB, AWEC, and the  
18 Coalition (collectively, “Second Stipulation Parties”)—entered into the Second Stipulation  
19 to resolve issues relating to the Company’s decoupling mechanism, residential customer  
20 deposits, the OLIEE Program, and the amortization and rate spread for NW Natural’s  
21 COVID-19 deferral.

---

<sup>101</sup> NW Natural/2400, Heiting-Bracken/39.

<sup>102</sup> Coalition/900, Ryan/42-43.

<sup>103</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermode/15-16.

<sup>104</sup> NW Natural-Staff-CUB-AWEC-SBUA/200, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermode/5.

1 First, the Second Stipulation Parties agree that NW Natural will include certain data  
2 in its next rate case filing related to the inputs to its decoupling program. Specifically, NW  
3 Natural will include the following information in its next rate case: (1) the number of new  
4 customers forecasted within the rate case filing, and (2) use-per-customer (“UPC”) data  
5 that includes the Company’s UPC for existing residential customers and ten years of data  
6 to develop a UPC for customers taking service at new residential premises.<sup>105</sup>  
7 Additionally, the Second Stipulation Parties agree that NW Natural is not obligated to  
8 propose a modification to its decoupling program in its next rate case but NW Natural will  
9 not argue that no modification can be made as a result of the Second Stipulation and will  
10 not argue that implementing a two-part (existing customers/new customers) decoupling  
11 mechanism is not technically feasible.<sup>106</sup> Though NW Natural may present evidence and  
12 argument regarding the costs to implement any proposed modifications to its decoupling  
13 program.<sup>107</sup>

14 Second, the Second Stipulation Parties agree that, beginning November 1, 2022,  
15 NW Natural will stop collecting customer deposits from new residential customers as a  
16 precondition to establishing service, and from residential customers who are currently  
17 enrolled in the Low-Income Home Energy Assistance Program (“LIHEAP”), and/or the  
18 Company’s energy assistance programs, or who self-certify as low-income.<sup>108</sup> NW  
19 Natural may continue its practice of collecting customer deposits from residential

---

<sup>105</sup> Multi-Party Second Partial Stipulation Regarding Decoupling, Residential Customer Deposits, the Oregon Low-Income Energy Efficiency Program, and COVID-19 Deferral Costs at 3-4 (June 29, 2022) (“Second Stipulation”).

<sup>106</sup> Second Stipulation at 4.

<sup>107</sup> Second Stipulation at 4.

<sup>108</sup> Second Stipulation at 4.

1 customers who have been disconnected for nonpayment, except for low-income  
2 customers.<sup>109</sup> The income eligibility for self-certification will be set at 60 percent of State  
3 Median Income (“SMI”) (adjusted for household size); however, if the docket AR 653  
4 rulemaking establishes different income eligibility criteria for customer deposits, NW  
5 Natural will update its income eligibility for customer deposits to align with the results of  
6 the docket AR 653 rulemaking.<sup>110</sup>

7 Third, the Second Stipulation Parties agree to increase the total OLIEE funding by  
8 \$4,000 per dwelling.<sup>111</sup> The allocation of these additional funds will be subject to  
9 consultation between the OLIEE Advisory Group and the Community Action Partner  
10 (“CAP”) agencies, to be allocated among energy efficiency measures, CAP administrative  
11 costs, or Health, Safety, and Repair (“HSR”) measures allowance.<sup>112</sup> Of this \$4,000, at  
12 least \$1,500 will be reserved for the HSR measures allowance, to the extent there are  
13 HSR measures at the dwelling.<sup>113</sup> In addition to the increase in funding per premise, NW  
14 Natural will make the following revisions to Schedule 320: clarify that high-efficiency gas  
15 furnace installations are subject to a cost-effectiveness test, with an exception for red-  
16 tagged furnace replacements, and that the existing exception for furnace replacements  
17 under the HSR Allowance in Schedule 320 remains in place;<sup>114</sup> clarify that smart  
18 thermostats, attic insulation, and wall insulation need not be subject to the cost-

---

<sup>109</sup> Second Stipulation at 4.

<sup>110</sup> Second Stipulation at 4-5.

<sup>111</sup> Second Stipulation at 5.

<sup>112</sup> Second Stipulation at 5.

<sup>113</sup> Second Stipulation at 5.

<sup>114</sup> Second Stipulation at 5.



1 effectiveness test;<sup>115</sup> and clarify the language in Schedule 320 regarding the parameters  
2 of the HSR exception for standard efficiency furnace replacement.<sup>116</sup>

3 Fourth, the Second Stipulation Parties agree that NW Natural will amortize its 2020  
4 and 2021 COVID-19 deferral balances, inclusive of interest accrued on those balances  
5 but subject to a negative adjustment of \$163,000, over two years as a temporary  
6 increment in its purchased gas adjustment (“PGA”), effective November 1, 2022.<sup>117</sup> The  
7 Second Stipulation Parties further agree that certain portions of NW Natural’s COVID-19  
8 deferral—specifically the direct costs, as recommended by Staff—will be subject to an  
9 earnings test set at the Company’s authorized ROE and that NW Natural will apply the  
10 rate spread allocation methodology to the deferred balances that is consistent with  
11 Appendix B to the First Stipulation.<sup>118</sup> Finally, NW Natural may request a prudency review  
12 and amortization of post-2021 COVID-19 deferral balances in a future proceeding.<sup>119</sup>

13 **2. The Commission Should Reject SBUA’s Criticisms of the COVID-19**  
14 **Deferral and Alternative Proposal, and Instead Adopt the Second**  
15 **Stipulation in Its Entirety.**

16 SBUA did not join the Second Stipulation, and objects to Paragraph 4 of the  
17 Second Stipulation addressing the COVID-19 deferral. SBUA raises the following  
18 objections to the COVID-19 deferral portion of the Second Stipulation: (1) SBUA claims  
19 it did not have adequate notice of the COVID-19 deferral issue and opportunity to audit  
20 the costs associated with the deferral because amortization of the deferral was not

---

<sup>115</sup> Second Stipulation at 6.

<sup>116</sup> Second Stipulation at 6.

<sup>117</sup> Second Stipulation at 7.

<sup>118</sup> Second Stipulation at 7.

<sup>119</sup> Second Stipulation at 7.

1 proposed in NW Natural’s Initial Filing,<sup>120</sup> and instead was proposed by Staff in its  
2 Opening Testimony;<sup>121</sup> (2) SBUA argues the COVID-19 deferral inappropriately groups  
3 dissimilar costs together for the use of a single allocator;<sup>122</sup> and (3) SBUA asserts that  
4 the stipulated cost allocation methodology is erroneously based on a forward-looking  
5 allocation factor rather than a historical one, which SBUA argues violates the matching  
6 principle.<sup>123</sup> SBUA provides an alternative cost allocation proposal in which it excludes  
7 the small business customer class from the COVID-19 Bill Assistance Program cost  
8 category<sup>124</sup> and allocates costs for each of the remaining cost categories separately and  
9 based on historical marginal revenue rather than Test Year revenue.<sup>125</sup> As the Second  
10 Stipulation Parties explained in their Joint Reply to SBUA’s Objections, none of SBUA’s  
11 criticisms warrant rejection of the Second Stipulation.

12 **a) SBUA had ample time and opportunity to audit the COVID-19**  
13 **deferral amounts.**

14 Contrary to SBUA’s assertions, SBUA had nearly three months to audit the  
15 COVID-19 deferrals amounts, and SBUA actually submitted discovery requests to Staff  
16 and the Company regarding the COVID-19 deferral issue.<sup>126</sup> Additionally, Staff indicated  
17 that they performed a prudence review, and while the Second Stipulation Parties  
18 maintained different positions about the costs to be included in the amortization, they

---

<sup>120</sup> On December 17, 2021, NW Natural filed its request for a general rate increase (the “Initial Filing”), which was docketed as UG 435.

<sup>121</sup> SBUA/200, Kermod/2-3.

<sup>122</sup> SBUA/300, Kermod/3.

<sup>123</sup> SBUA/300, Kermod/3.

<sup>124</sup> SBUA refers to this category as the “Rate Payer Bill Assistance Program.” See SBUA/200, Kermod/18.

<sup>125</sup> SBUA/200, Kermod/17-18; SBUA/300, Kermod/4-5.

<sup>126</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/7-8.

1 ultimately reached a compromise resolving the prudence of the deferred costs, which was  
2 a negative adjustment of \$163,000.<sup>127</sup>

3 **b) SBUA's argument that small business customers did not**  
4 **benefit from COVID-19 rate relief should be rejected.**

5 SBUA asserts that it is inappropriate to treat all deferred COVID-19-related costs  
6 the same for purposes of cost allocation, an argument which is premised on SBUA's  
7 disagreement that small business customers benefitted from the COVID-19 rate relief that  
8 was afforded to residential customers. SBUA argues the Commission authorized deferral  
9 of six different cost types and objects to grouping NW Natural's deferred COVID-19 costs  
10 into a lump sum for purposes of amortization with no recognition or any discussion of  
11 underlying reasons for the costs.<sup>128</sup> SBUA notes that NW Natural deferred costs for only  
12 four of the six different categories, that one of the categories—residential customer rate  
13 assistance—provides no benefit to small businesses, and therefore these costs should  
14 not be allocated to small business customers.<sup>129</sup> For the remaining categories—direct  
15 costs and benefits, bad debt expense, and foregone late and reconnection fees—SBUA  
16 argues the costs should be broken down by rate class and allocated accordingly.<sup>130</sup>

17 The Second Stipulation Parties disagree with SBUA's position regarding the  
18 benefits that flowed from residential rate relief, and instead believe that small businesses  
19 benefited from the rate relief afforded to residential customers.<sup>131</sup> Staff provided a

---

<sup>127</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/8-9.

<sup>128</sup> SBUA/300, Kermode/3.

<sup>129</sup> SBUA/200, Kermode/17-18.

<sup>130</sup> SBUA/300, Kermode/3.

<sup>131</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/10-11.

1 persuasive discussion of this point in its Opening Testimony, explaining that the benefits  
2 received by residential customers lead to a fiscal multiplier effect on the total output of  
3 Oregon’s economy, with benefits received well beyond the actual recipients of the  
4 credits.<sup>132</sup> Because small business customers benefitted from all of the rate relief  
5 measures underlying the deferred costs, SBUA’s argument that it is unreasonable to  
6 group the costs together for purposes of cost allocation is not well founded.

7 While SBUA claims that indirect flow of benefits is “subjective,”<sup>133</sup> the Second  
8 Stipulation Parties ultimately agreed that there were benefits flowing from the COVID-19  
9 relief measures beyond the residential class, although such benefits may be difficult to  
10 precisely quantify.<sup>134</sup> Accordingly, the COVID-19 deferral should be allocated to all  
11 customer classes as a matter of principle.<sup>135</sup> The Second Stipulation Parties further  
12 agreed that the allocation approach in Appendix B of the First Stipulation would be an  
13 appropriate compromise to match costs and benefits of the COVID-19 relief measures.<sup>136</sup>

14 **c) The use of the rate spread from the First Stipulation does not**  
15 **violate the matching principle.**

16 The matching principle requires that “ratepayers are charged with the costs of  
17 producing the service they receive.”<sup>137</sup> SBUA argues that using a forward-looking

---

<sup>132</sup> See Staff/1500, Dlouhy-Fox-Storm/25.

<sup>133</sup> SBUA/200, Kermode/10.

<sup>134</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/10.

<sup>135</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/11.

<sup>136</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/11-12.

<sup>137</sup> *Town of Norwood v. FERC*, 53 F3d 377, 380-81 (D.C. Cir. 1995). This Commission recognizes the matching principle. See, e.g., ORS 757.259(2)(e) (authorizing deferrals “to match appropriately the costs borne by and benefits received by ratepayers”); *In re Pub. Util. Comm’n of Or. Investigation of Automatic Adjustment Clause Pursuant to SB 838*, Docket UM 1330, Order No. 07-572 at 5 (Dec. 19, 2007) (renewable adjustment clause designed to match costs and benefits of renewable resources in rates).

1 allocator to recover deferred historical costs violates this principle by requiring one  
2 customer class to pay for costs that were incurred by another customer class.<sup>138</sup>  
3 However, SBUA misunderstands the methodology the Second Stipulation Parties have  
4 proposed to spread the COVID-19 deferral. The Second Stipulation Parties agreed to  
5 apply a rate spread allocation consistent with Appendix B to the First Stipulation.<sup>139</sup> Thus,  
6 the COVID-19 deferral allocation follows in the same manner as the \$62.7 million  
7 *incremental* revenue requirement rate spread agreed to in the First Stipulation of this  
8 proceeding; the deferral cost allocation is neither based on nor is it calculated using  
9 proposed Test Year margin revenue as SBUA contends. Rather, the COVID-19 deferral  
10 rate spread is calculated and allocated to each rate schedule on a proportional basis.  
11 The deferral amount allocated to each rate schedule, as a relative percentage, is equal  
12 to the same percent of incremental margin revenue that was allocated to the rate schedule  
13 in accordance with Appendix B to the First Stipulation.

14 SBUA further argues that “[t]he use of the proposed marginal revenues causes a  
15 mismatch of costs and periods violating the matching principle and producing a flawed  
16 cost recovery.”<sup>140</sup> However, contrary to SBUA’s assertion, it is entirely appropriate in  
17 ratemaking to weigh the allocation and recovery of historical costs against the Long-Run  
18 Incremental Cost (“LRIC”) study-indicated parity ratios at *present* rates.<sup>141</sup> Indeed, the  
19 First Stipulation Parties considered these same parity ratios among many other factors to

---

<sup>138</sup> SBUA/300, Kermode/3.

<sup>139</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/12.

<sup>140</sup> SBUA/200, Kermode/20.

<sup>141</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/13.

1 reach a rate spread settlement position regarding incremental revenue requirement,  
2 which includes recovery associated with historical Base Year capital investments and  
3 expenses, and which is memorialized in Appendix B to the First Stipulation to this  
4 proceeding.<sup>142</sup> SBUA, which was a party to the First Stipulation, did not similarly object  
5 to the use of the Company's LRIC study-indicated parity ratios at *present* rates to inform  
6 the incremental revenue requirement rate spread allocation, nor did SBUA argue at the  
7 time that the parties' agreement was "flawed."<sup>143</sup>

8 **d) SBUA's alternative proposal should be rejected.**

9 SBUA made an alternative proposal for allocation of the COVID-19 deferral, which  
10 allocated the four categories of costs in the deferral (COVID-19 direct costs and benefits,  
11 late fees, bad debt expense, and the COVID-19 Bill Assistance Program) using allocation  
12 approaches that SBUA claims fit the cost profiles for each category.<sup>144</sup> SBUA allocated  
13 the direct costs and benefits and late fees using an equal percent of marginal allocator  
14 using margin revenues at present rates. SBUA allocated bad debt expense using a two-  
15 part process: (1) costs were allocated to each rate class based on the Company's  
16 deferred tracking of costs by rate class; and then (2) the costs were allocated intra-class  
17 using margin revenues at present rates.<sup>145</sup> Finally, SBUA allocated all costs associated  
18 with the COVID-19 Bill Assistance Program to the residential rate class.<sup>146</sup>

---

<sup>142</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/13.

<sup>143</sup> NW Natural-Staff-CUB-AWEC-Coalition/200, Kravitz, Wyman, Fjeldheim, Scala, Jenks, Mullins, and Fain/13.

<sup>144</sup> SBUA/200, Kermod/17-18.

<sup>145</sup> SBUA/200, Kermod/16.

<sup>146</sup> SBUA/200, Kermod/18-19.

1           The Commission should reject SBUA’s alternative proposal, as it is predicated on  
2 SBUA’s proposal to allocate all costs associated with the COVID-19 Bill Assistance  
3 Program to the residential rate class. While it is difficult to precisely track the benefits  
4 flowing from the COVID-19 Bill Assistance Program, Staff persuasively argued in its  
5 Opening Testimony that all customer classes (including small business customers)  
6 realized direct and indirect benefits from the deferred cost categories.<sup>147</sup> Finally, while  
7 SBUA has identified another potential method of allocating the COVID-19 deferral costs,  
8 SBUA has not established that the method agreed to in the Second Stipulation is faulty  
9 or should be rejected. NW Natural respectfully requests that the Commission approve  
10 the amortization and rate spread proposed in the Second Stipulation.

11           **III.     ARGUMENT REGARDING OTHER LITIGATED ISSUES IN THIS CASE**

12           **A.     Line Extension Allowance**

13           CUB and the Coalition both propose to eliminate the line extension allowances  
14 included in Schedule X, which serve to provide an appropriate Company investment to  
15 connect new customers to the gas system.<sup>148</sup> Recognizing the hardship that immediate  
16 elimination could cause, CUB recommends reducing the LEA over the next two years and  
17 eliminating it completely in 2025.<sup>149</sup> The Coalition recommends that the LEA be  
18 eliminated immediately, or in the alternative, that the Commission revise the LEA  
19 calculation.<sup>150</sup>

---

<sup>147</sup> Staff/1500, Dlouhy-Fox-Storm/37.

<sup>148</sup> CUB/100, Jenks/17; Coalition/200, Burgess/29.

<sup>149</sup> CUB/100, Jenks/17.

<sup>150</sup> Coalition/200, Burgess/29.

1           While both parties offer several specific criticisms of the economic model and  
2 inputs used by NW Natural to calculate the LEA, their proposals to eliminate the LEA  
3 altogether are primarily rooted in broad concerns related to NW Natural’s ability to comply  
4 with the Climate Protection Program’s (“CPP”) decarbonization requirements as well as  
5 the costs of compliance, a perceived customer preference for electric appliances, and in  
6 the Coalition’s case, a desire to promote building electrification as a means to combat  
7 climate change. Both CUB and the Coalition believe that given these challenges, the  
8 continued provision of LEAs imposes an unacceptable risk of stranded assets.<sup>151</sup>  
9 However, the evidence in the record does not support either their broad concerns or  
10 specific critiques regarding the LEA. For these reasons, CUB’s and the Coalition’s  
11 proposals to eliminate or otherwise revise the LEA should be rejected.

12           **1. Background Regarding Line Extension Allowance**

13                   **a) Purpose of LEAs**

14           When a prospective customer requests that gas service be provided to a new  
15 home, or other location not previously served, NW Natural must build out its facilities to  
16 connect that customer to the system. Rather than requiring the new customer to up-front  
17 fund the full costs of the connection, the new customer will be provided an allowance that  
18 will be applied to construction costs—referred to as a line extension allowance, or LEA.  
19 The LEA recognizes the expected incremental revenue provided by the addition of new  
20 customers, which will “pay down” the initial investment to connect the customer to the  
21 system. The LEA is added to rate base and paid for by all customers, recognizing that

---

<sup>151</sup> See, e.g., CUB/400, Jenks/3, 8-9; Coalition/100, Apter/13; Coalition/700, Stewart/4.



1 the new customer is providing incremental revenue, and the new customer is responsible  
2 to pay any amount in excess of that allowance.

3 The goal of line extension allowances is to ensure equity between existing and  
4 new customers.<sup>152</sup> Based on the assumption that existing customers benefit over time  
5 from the addition of new customers through the spread of common costs, LEAs are  
6 calculated to ensure that existing customers are not harmed by the addition of new  
7 customers to the utility's system, and conversely, that the costs paid by new customers  
8 to join the system fairly recognize the benefits to existing customers of customer  
9 additions.<sup>153</sup> Importantly, line extension allowances are not intended as a subsidy to  
10 encourage or assist new customers to join the gas system.<sup>154</sup> Quite to the contrary, line  
11 extension allowances serve to ensure equity among customers.<sup>155</sup>

12 As explained by NW Natural's expert witness, John Taylor, when new customers  
13 are added to the utility system, existing customers benefit in three ways. First, from an  
14 operational standpoint, integrating new customers into a utility's distribution system leads  
15 to internal efficiencies resulting from economies of scale, lowering the average cost of a  
16 utility's service to both new and existing customers.<sup>156</sup> Second, additional revenues from  
17 new customers offset the recovery of common costs resulting in lower prices for all  
18 customers over time.<sup>157</sup> Third, existing customers can benefit from economies of scope

---

<sup>152</sup> NW Natural/1800, Taylor/6.

<sup>153</sup> NW Natural/1800, Taylor/6.

<sup>154</sup> NW Natural/2600, Taylor/10.

<sup>155</sup> NW Natural/1800, Taylor/6.

<sup>156</sup> NW Natural/1800, Taylor/6.

<sup>157</sup> NW Natural/1800, Taylor/6.

1 where cost savings are achieved from providing service to two or more distinct groups of  
2 customers.<sup>158</sup>

3 **b) Commission precedent regarding LEAs**

4 Line extension allowances are calculated by comparing the expected revenues  
5 from new customers and the direct incremental cost of providing service to new  
6 customers. When the direct incremental costs associated with the new customer addition  
7 exceed the expected revenues over time, the customer is required to contribute directly  
8 to the construction costs. This general approach is reflected in the Commission's line  
9 extension rules, which dictate as follows:

10 Each gas utility shall develop, with the Commission's approval, a uniform  
11 policy governing the amount of main extension which shall be made free to  
12 connect a new customer. This policy should be related to the investment  
13 that can prudently be made for the probable revenue.<sup>159</sup>

14  
15 While Oregon has not adopted a specific approach to calculating the LEA, the rules clearly  
16 dictate that utilities set the LEA based on expected revenues from the new customer.<sup>160</sup>

17 The Commission reaffirmed its commitment to this approach to setting line  
18 extension allowances in Order No. 20-483 issued in docket UE 385.<sup>161</sup> In that docket,  
19 Portland General Electric Company ("PGE") filed a request to restructure its residential  
20 line extension allowance to further Oregon's decarbonization goals under Executive  
21 Order No. 20-04. Specifically, PGE explained that its proposed new allowance would  
22 provide customers with an incentive to electrify residential loads.<sup>162</sup> In adopting Staff's

---

<sup>158</sup> NW Natural/1800, Taylor/6-7.

<sup>159</sup> OAR 860-021-0050; OAR 860-021-0051.

<sup>160</sup> OAR 860-021-0050; OAR 860-021-0051.

<sup>161</sup> *In re Portland Gen. Elec. Co., Advice No. 20-14 (ADV 1130), Schedule 300 Line Extension Allowance*, Docket UE 385, Order No. 20-483 (Dec. 23, 2020).

<sup>162</sup> Order No. 20-483, App. A at 3.

1 recommendation, the Commission explicitly recognized that it did not rely on PGE's  
2 proposals related to decarbonization, but rather on the Commission's historical practice  
3 of evaluating LEAs on an economic basis.<sup>163</sup>

4 **c) NW Natural's Schedule X**

5 NW Natural's current residential line extension allowances, which are included in  
6 Schedule X, were determined in the Company's 2012 general rate case ("GRC").<sup>164</sup> The  
7 LEA differs depending on the gas appliances that the customer plans to use. The current  
8 LEA for a residential customer using natural gas for space heating is \$2,875.<sup>165</sup> The LEA  
9 is \$2,100 for water heating and \$850 for a gas range, cook top, or clothes dryer.<sup>166</sup> A  
10 customer that elects gas for certain other uses will receive no allowance.<sup>167</sup>

11 Non-residential allowances are determined by the Company on a case-by-case  
12 basis, using the software program Experlogix.<sup>168</sup> As described in Schedule X, the  
13 investment analysis performed for each new installation considers structure  
14 characteristics, the equipment to be used, and the nameplate rating of the equipment.<sup>169</sup>

15 The methods employed by NW Natural to calculate the LEAs approved in the 2012  
16 GRC ensure that new customers pay their fair share of the costs to connect to the system  
17 and that existing customers benefit from the addition of the new customer.<sup>170</sup> Mr. Taylor's

---

<sup>163</sup> Order No. 20-483, App. A at 8.

<sup>164</sup> *In re Nw. Nat. Gas Co., dba NW Nat., Request for a Gen. Rate Revision*, Docket UG 221, Order No. 12-408 (Oct. 26, 2012).

<sup>165</sup> NW Natural/1800, Taylor/14, Table 2.

<sup>166</sup> NW Natural/1800, Taylor/14, Table 2.

<sup>167</sup> NW Natural/1800, Taylor/14, Table 2.

<sup>168</sup> See NW Natural/1800, Taylor/16; see generally NW Natural/1803, Taylor.

<sup>169</sup> Attachment 1, Schedule X, Tariff Sheet X-6. The version of Schedule X currently in effect is attached to this brief for the convenience of the reviewer. Pursuant to OAR 860-001-0460, NW Natural requests that the Commission take official notice of Schedule X.

<sup>170</sup> See NW Natural/1800, Taylor/17.

1 Reply Testimony explains that the residential LEAs adopted in the 2012 GRC were  
2 calculated using an internal rate of return model (“IRR Model”) such that the expected  
3 revenue stream from the different services (space heating, water heating, etc.) created  
4 an IRR set at the Company’s cost of capital.<sup>171</sup> As detailed by Mr. Taylor, the IRR Model—  
5 filed in the case<sup>172</sup>—demonstrates the following:

- 6 • When a new customer is added to the system, the customer provides additional  
7 distribution margin revenue to cover its non-commodity cost of service (\$371 in  
8 year 1).<sup>173</sup> The new customer also directly causes an increase in expenses,  
9 including O&M, depreciation, franchise tax, property tax, and income, offset by  
10 the tax benefit of the investment (\$146 in year 1).<sup>174</sup> This results in an increase  
11 in operating cash flow attributable to the new customer joining the system (\$225  
12 in year 1).<sup>175</sup>
- 13 • The model then sets a line extension allowance to a dollar amount (in this case,  
14 \$2,900)<sup>176</sup> that results in an IRR calculation of the annual increases in operating  
15 cash flow equaling the Company’s after-tax weighted average cost of capital (in  
16 this case, 6.9 percent).<sup>177</sup> The IRR was calculated over 30 years, recognizing  
17 both the useful life of utility assets and the time a new customer is expected to

---

<sup>171</sup> NW Natural/1800, Taylor/15.

<sup>172</sup> See *generally* NW Natural/1802, Taylor.

<sup>173</sup> NW Natural/1802, Tab Financials at cell D85.

<sup>174</sup> NW Natural/1802, Tab Financials at cells D86+D87+D88-D91+D95.

<sup>175</sup> NW Natural/1802, Tab Financials at cell D97.

<sup>176</sup> NW Natural/1802, Tab Financials at cell G73.

<sup>177</sup> NW Natural/1802, Tab Financials at cell D76.

1 remain on the system.<sup>178</sup> In other words, an allowance of \$2,900 results in an  
2 IRR of 6.9 percent over 30 years.

3 • The result of this calculation is a line extension allowance for new customers that,  
4 at a minimum, is not financially detrimental to existing customers, as the  
5 allowance results in an IRR equal to 6.9 percent by setting the net present value  
6 (“NPV”) of the cash flows to zero. It should also be noted that the resulting  
7 allowance of \$2,900 corresponds to a margin revenue multiplier<sup>179</sup> of 7.8 (i.e.,  
8  $\$2,900 / \$371 = 7.8$ ), which provides a point of comparison with CUB’s proposal  
9 to use five times margin.<sup>180</sup>

10 Importantly, to test the continued validity of the IRR Model in this case, Mr. Taylor  
11 recalculated the LEA using updated inputs.<sup>181</sup> With updated assumptions (including but  
12 not limited to: distribution margin, UPC, cost of capital, and expenses), the line extension  
13 allowance for a new residential space heating customer would be \$3,790,<sup>182</sup>  
14 corresponding to a margin revenue multiplier of 8.2 (i.e.,  $\$3,790 / \$461.80 = 8.2$ ). As  
15 such, the current line extension allowance of \$2,875 continues to provide a net benefit to  
16 existing customers over time, and represents a margin revenue multiplier of 6.2 when  
17 accounting for the updated assumptions (i.e.,  $\$2,875 / \$461.80 = 6.2$ ).<sup>183</sup> As a result of  
18 these updates to key factors, the allowance output in the model *increased*—which means

---

<sup>178</sup> NW Natural/1802, Tab Financials at cell C76.

<sup>179</sup> The term “revenue multiplier” used in Mr. Taylor’s testimony is intended to refer specifically to the “margin revenue multiplier.”

<sup>180</sup> NW Natural/1800, Taylor/17-18. As explained in NW Natural/1802, Taylor/1, the allowances in Schedule X are slightly lower than the amounts produced in the calculation due to the lower revenue requirement that resulted after processing the 2012 general rate case.

<sup>181</sup> See NW Natural/1804, Taylor.

<sup>182</sup> NW Natural/1804, Tab Financials at cell D7.

<sup>183</sup> NW Natural/1800, Taylor/18-19.

1 that there is actually a subsidization occurring from the new customer to existing  
2 customers under the current LEA. However, at this time, NW Natural is not seeking to  
3 change its line extension allowance.

## 4 **2. CUB's and the Coalition's LEA Proposals**

5 CUB's and the Coalition's ultimate goal is to completely eliminate NW Natural's  
6 line extension allowances for residential, commercial, and industrial customers. CUB  
7 proposes that the LEA be phased out over the next two years. Specifically, CUB proposes  
8 to reduce the Company's current LEA of \$2,875 for residential space heating to \$2,330  
9 until the end of 2023, then reduce that value by 50 percent in 2024, and eliminate the LEA  
10 thereafter.<sup>184</sup> CUB also proposes to eliminate the "presumption of prudence" that CUB  
11 claims applies to capital investments to serve new customers.<sup>185</sup> The Coalition is asking  
12 for an immediate elimination of the LEA.<sup>186</sup> While the reasoning behind their  
13 recommendations overlap significantly, there are some distinct differences in their  
14 arguments.

15 CUB argues that the LEA must be eliminated because the natural gas business  
16 model is experiencing several challenges, and that these challenges create significant  
17 risk to customers.<sup>187</sup> Specifically, CUB raises concerns about NW Natural's ability to  
18 decarbonize its system and comply with the CPP;<sup>188</sup> the increasing cost of gas service

---

<sup>184</sup> CUB/100, Jenks/17. While the parties have argued for the elimination of all line extension allowances, their arguments have focused on the residential LEAs.

<sup>185</sup> CUB/100, Jenks/14; CUB/400, Jenks/34.

<sup>186</sup> Coalition/200, Burgess/29.

<sup>187</sup> CUB/100, Jenks/6-7.

<sup>188</sup> CUB/100, Jenks/3-5; CUB/400, Jenks/7.

1 due to the cost of decarbonizing and the increased cost of conventional natural gas;<sup>189</sup>  
2 and the increasing prevalence of and customer preference for electric heat pump and  
3 induction cooking technology.<sup>190</sup> All of these factors, CUB claims, are likely to cause  
4 customers to leave the gas system and create the potential for stranded assets for which  
5 remaining customers must pay.<sup>191</sup> The Coalition also raises concerns about NW  
6 Natural’s ability to comply with the CPP and the cost of doing so,<sup>192</sup> as well as the risk—  
7 purported inevitability—that customers will leave the gas system due to increasing  
8 preference for electric heat pumps.<sup>193</sup> In addition, the Coalition raises a unique concern  
9 that customers will leave the gas system due to concerns about indoor air quality.<sup>194</sup> And  
10 while the Coalition avoids making this argument directly, it is clear that it believes that the  
11 elimination of gas service is necessary to combat climate change—and that the  
12 elimination of the LEA is the best way to achieve this goal.<sup>195</sup>

13 For the reasons discussed below, the Commission should reject these arguments,  
14 and retain NW Natural’s line extension allowances.

15 **3. This is Not the Right Docket to Consider Fundamental Changes to LEA**  
16 **Policy.**

17 NW Natural’s current LEA tariff was adopted in accordance with the Commission’s  
18 long-standing line extension policies, which are critical to balancing the interests of new  
19 and existing customers and ensuring that both groups are treated fairly. While the

---

<sup>189</sup> CUB/100, Jenks/5-6; CUB/400, Jenks/13.

<sup>190</sup> CUB/100, Jenks/2-3.

<sup>191</sup> CUB/100, Jenks/7.

<sup>192</sup> Coalition/200, Burgess/19.

<sup>193</sup> Coalition/500, Burgess/15.

<sup>194</sup> Coalition/200, Burgess/20-21.

<sup>195</sup> See, e.g., Coalition/500, Burgess/11; Coalition/600, Apter/3; Coalition/700, Stewart/27.

1 Commission has allowed for revisions of the calculation methods for LEAs, it has never  
2 before considered a proposal to abandon them altogether. In this light, the proposals  
3 made by CUB and the Coalition represent a drastic departure from the Commission’s  
4 historical LEA policies. For this reason alone, the Commission should insist on a more  
5 robust record before considering such a proposal—a record that cannot practically be  
6 developed in a general rate case presenting numerous and varied other issues.

7       Importantly, CUB’s and the Coalition’s proposals, and their specific reasoning  
8 supporting them, raise significant policy questions that could have broad-ranging  
9 consequences for customers, utilities, and the reliability of Oregon’s energy system.<sup>196</sup>  
10 These impacts apply equally to other Oregon local distribution companies and to electric  
11 investor-owned utilities—which are also subject to aggressive decarbonization mandates  
12 under House Bill (“HB”) 2021.<sup>197</sup> Therefore, to the extent the Commission wishes to  
13 consider CUB’s and the Coalition’s LEA proposals, it should do so in a generic  
14 proceeding—consistent with the recommendations of Staff and AWEC.<sup>198</sup> A generic  
15 docket would allow for full participation of all interested parties, and a more  
16 comprehensive record than has been presented in this case.<sup>199</sup> Further, a generic docket  
17 would provide a unique opportunity—not present in a single utility’s rate case—to explore  
18 innovative, alternative proposals such as line extension policies that more robustly  
19 support hybrid technology like dual fuel/hybrid heating.<sup>200</sup>

---

<sup>196</sup> NW Natural/2400, Heiting-Bracken/20.

<sup>197</sup> NW Natural/2400, Heiting-Bracken/20; NW Natural/1700, Heiting-Bracken/18.

<sup>198</sup> Staff/1800, Muldoon/29; AWEC/200, Mullins/19.

<sup>199</sup> NW Natural/2400, Heiting-Bracken/20.

<sup>200</sup> NW Natural/2400, Heiting-Bracken/21.



1           **4. It is Premature for the Commission to Consider the Proposed Changes**  
2           **to NW Natural’s LEA Prior to the Completion of the Next Cycle of Utility**  
3           **Resource Planning.**

4           Even if the Commission were to find that the issues raised by CUB and the  
5           Coalition may be appropriately examined in a NW Natural GRC, it is premature for the  
6           Commission to consider whether CUB’s and the Coalition’s proposed changes to the  
7           Company’s LEA are appropriate and justified before obtaining additional data through the  
8           utility resource planning process. Oregon’s gas and electric utilities have not yet  
9           completed their integrated resource plans (“IRPs”) analyzing their ability to comply with  
10          newly adopted decarbonization mandates—the CPP in the case of gas companies and  
11          HB 2021 for the electric companies.<sup>201</sup> These plans will provide the Commission with a  
12          clearer picture of the costs and risks associated with implementing the state’s  
13          decarbonization requirements, and such plans will be most informative if they include  
14          explicit assumptions regarding GHG emissions compliance and any assumed  
15          electrification, which would allow for coordinated planning among the gas and electric  
16          utilities.<sup>202</sup> Without the benefit of coordinated IRPs, the Commission cannot ascertain  
17          whether the costs and risks associated with all utilities’ GHG-reduction-requirement  
18          compliance would be appropriately reflected in utility rates—including in the calculation  
19          of the LEA.

---

<sup>201</sup> NW Natural/1700, Heiting-Bracken/12.

<sup>202</sup> NW Natural/1700, Heiting-Bracken/12; NW Natural/2400, Heiting-Bracken/15. NW Natural also believes that incorporating the results of those coordinated IRPs into a comprehensive analysis that examines Oregon’s electric and gas systems to understand how electrification impacts each system’s cost, reliability, and ability to decarbonize would be helpful, but understands that such a study would require additional resources. NW Natural/1700, Heiting-Bracken/15; NW Natural/2400, Heiting/Bracken/15.

1           **5. The Record in This Case Does Not Support Parties' Claims That the**  
2           **LEA Must Be Eliminated to Protect Customers or Address Climate**  
3           **Change.**

4           **a) The Commission does not need to eliminate the LEA to combat**  
5           **climate change.**

6           The Coalition's LEA proposal is motivated, at least in part, by a desire to combat  
7           climate change by reducing the use of natural gas.<sup>203</sup> For example, Ms. Apter testifies  
8           that the Commission has a "moral imperative" to take action on NW Natural's LEA now in  
9           order to address the burden climate change imposes on youth and "address the causes  
10          of climate change."<sup>204</sup> While NW Natural agrees that there is a moral imperative to  
11          radically decarbonize,<sup>205</sup> and has long been a leader in the gas industry in this regard,<sup>206</sup>  
12          the Company disagrees that it is necessary or appropriate for the Commission to  
13          eliminate the LEA to combat climate change.

14          In Oregon, the legislature and the Department of Environmental Quality have  
15          established absolute emissions-reduction requirements for electric and gas utilities.<sup>207</sup>  
16          Therefore, the Commission can be assured that the emissions reductions required by  
17          state policy will occur, regardless of whether load is shifted from the gas to the electric  
18          system, as the Coalition advocates.<sup>208</sup> The state's policy makers have already taken

---

<sup>203</sup> See Coalition/500, Burgess/11; Coalition/600, Apter/3; Coalition/700, Stewart/27.

<sup>204</sup> Coalition/600, Apter/2, 3; see also Coalition/100, Apter/6-7.

<sup>205</sup> NW Natural/2400, Heiting-Bracken/22; NW Natural/1700, Heiting-Bracken/12.

<sup>206</sup> NW Natural/1700, Heiting-Bracken/40.

<sup>207</sup> NW Natural/2400, Heiting-Bracken/23; Coalition/100, Apter/8.

<sup>208</sup> See Coalition/100, Apter/10-11 (stating that the use of fossil gas in Oregon buildings must significantly decline to meet the state's emissions-reduction goals); Coalition/200, Burgess/19 (stating that expansion of the gas system is at cross purposes with Oregon's climate policy).

1 significant steps toward addressing climate change. Notably, however, they have not  
2 required, or even encouraged, the electrification of gas load.<sup>209</sup>

3 **b) NW Natural can comply with the CPP at a reasonable cost while**  
4 **servicing new customers.**

5 Though it does not ask the Commission to evaluate NW Natural's CPP compliance  
6 strategy in this case,<sup>210</sup> CUB's proposal to eliminate the LEA is based in part upon  
7 perceived risks created by the requirement that NW Natural comply with the CPP and  
8 concerns that NW Natural's CPP compliance modeling is flawed.<sup>211</sup> The Coalition  
9 similarly raises the concern that the addition of new customers may jeopardize NW  
10 Natural's ability to comply with the CPP.<sup>212</sup> NW Natural agrees with CUB that the  
11 appropriate docket for consideration of NW Natural's CPP compliance strategy is the  
12 Company's soon-to-be-filed final IRP.<sup>213</sup> But in response to CUB's and the Coalition's  
13 concerns, the Company provided extensive testimony in this case explaining that its  
14 preliminary modeling conducted in docket UM 2178 has given the Company confidence  
15 that it can comply with the CPP at a reasonable cost while adding new customers and  
16 rebutting the parties' specific criticisms of the Company's preliminary compliance  
17 strategy.<sup>214</sup> NW Natural provided significant evidence supporting its position, whereas  
18 CUB and the Coalition provide only unsupported speculation.

19 **First**, NW Natural detailed how the Company can substantially decarbonize its gas  
20 supply. NW Natural explained that acquiring RNG to meet SB 98 targets may be sufficient

---

<sup>209</sup> NW Natural/1700, Heiting-Bracken/16-17.

<sup>210</sup> CUB/400, Jenks/14.

<sup>211</sup> CUB/100, Jenks/3-5; CUB/400, Jenks/7.

<sup>212</sup> Coalition/200, Burgess/19.

<sup>213</sup> NW Natural/2400, Heiting-Bracken/6; CUB/400, Jenks/14.

<sup>214</sup> NW Natural/1700, Heiting-Bracken/39-71.

1 to comply with the CPP through 2024,<sup>215</sup> and the Company envisions acquiring additional  
2 biofuel RNG over time—along with hydrogen gas and synthetic gas as those options  
3 become least-cost.<sup>216</sup> While the Coalition questions whether the Company will be able  
4 to acquire sufficient RNG,<sup>217</sup> NW Natural explained and provided a figure showing that its  
5 preliminary modeling deploys a cost-effective amount of biofuel RNG, and that amount  
6 remains at less than 15 percent of current deliveries through 2050.<sup>218</sup> NW Natural also  
7 demonstrated that the study on which the Coalition relies regarding RNG supply is more  
8 than five years old and has been replaced by more recent studies by the same group,  
9 which project significantly increased amounts of RNG availability.<sup>219</sup> Staff agrees that  
10 there has been an acceleration in the number of RNG projects.<sup>220</sup>

11 CUB and the Coalition raise concerns regarding the cost of carbon-free gas supply  
12 options.<sup>221</sup> In response, the Company explained that CUB incorrectly compares the  
13 energy cost of conventional and carbon-free gas, rather than comparing the “all-in cost”  
14 as NW Natural’s Commission-approved methodology does.<sup>222</sup> CUB also focuses on  
15 near-term prices, whereas the Company’s preliminary modeling used third-party price  
16 projections, which showed the all-in cost of renewable hydrogen is expected to fall below  
17 the all-in cost of conventional gas by 2050.<sup>223</sup> NW Natural also rebutted the Coalition’s

---

<sup>215</sup> NW Natural/1700, Heiting-Bracken/43. SB 98 refers to ORS 757.390-398.

<sup>216</sup> NW Natural/1700, Heiting-Bracken/56-61.

<sup>217</sup> Coalition/100, Apter/15; Coalition/200, Burgess/19.

<sup>218</sup> NW Natural/1700, Heiting-Bracken/61-62.

<sup>219</sup> NW Natural/1700, Heiting-Bracken/62.

<sup>220</sup> Staff/1800, Muldoon/14-15.

<sup>221</sup> CUB/100, Jenks/5; Coalition/100, Apter/16.

<sup>222</sup> NW Natural/1700, Heiting-Bracken/64.

<sup>223</sup> NW Natural/1700, Heiting-Bracken/64.

1 concerns regarding methane leakage from the gas system—explaining that the  
2 Company’s system is modernized and that it has one of the lowest leak rates in the  
3 country.<sup>224</sup> Staff agrees, highlighting the “extensive modernization” NW Natural’s system  
4 has undergone.<sup>225</sup>

5 **Second**, NW Natural described how it expects to significantly decrease demand  
6 through a combination of energy efficiency measures that will include shell measures and  
7 advances in appliance technology.<sup>226</sup> The Company explained that it envisions a role for  
8 dual-fuel heating systems and high-efficiency natural gas heat pumps, but also made  
9 clear that its decarbonization strategy is not dependent on any one approach or  
10 technology.<sup>227</sup> NW Natural agrees with Staff that “practicable solutions to meet Oregon’s  
11 environmental goals likely will need to rely on multiple approaches including energy  
12 efficiency.”<sup>228</sup>

13 CUB and the Coalition criticize the Company’s perceived dependence on natural  
14 gas heat pumps because the technology is not yet commercialized.<sup>229</sup> In response, NW  
15 Natural clarified that its IRP modeling will show that it can comply with the CPP using a  
16 variety of technologies and strategies—not just natural gas heat pumps<sup>230</sup>—and that it is  
17 reasonable to expect gas heat pumps to be commercially available in the near future and  
18 to consider emerging technologies in planning how to decarbonize by 2050.<sup>231</sup> CUB also

---

<sup>224</sup> NW Natural/1700, Heiting-Bracken/65-66.

<sup>225</sup> Staff/1800, Muldoon/16.

<sup>226</sup> NW Natural/1700, Heiting-Bracken/46.

<sup>227</sup> NW Natural/1700, Heiting-Bracken/46-48.

<sup>228</sup> Staff/1800, Muldoon/13.

<sup>229</sup> CUB/100, Jenks/4; Coalition/700, Stewart/22.

<sup>230</sup> NW Natural/1700, Heiting-Bracken/47-48.

<sup>231</sup> NW Natural/1700, Heiting-Bracken/48-50; NW Natural/2400, Heiting-Bracken/37-38.

1 criticizes the magnitude of the energy efficiency spending the Company envisions,<sup>232</sup> but  
2 CUB significantly overstates the amount of energy efficiency spending in the Company’s  
3 preliminary modeling.<sup>233</sup>

4 **Third**, NW Natural explained that the costs of CPP compliance are significant, but  
5 that the Company’s preliminary modeling estimates that the impact to the annual bill  
6 customers are expected to pay for gas utility service over the next thirty years will increase  
7 at a relatively modest level for residential and commercial customers.<sup>234</sup> For example,  
8 NW Natural’s preliminary modeling estimated the average residential customer bill would  
9 be nine percent higher in a CPP-compliance scenario.<sup>235</sup> Therefore, it is not reasonable  
10 to assume, as CUB and the Coalition do,<sup>236</sup> that CPP-compliance costs will drive  
11 customers away from the gas system—particularly given that the electric system also  
12 faces aggressive decarbonization mandates, which will require adoption of new  
13 technology and construction of new generation resources and transmission  
14 infrastructure.<sup>237</sup>

15 **c) *There is no evidence in the record supporting the parties’***  
16 ***concern that customers will depart the gas system.***

17 CUB’s proposal to eliminate the LEA is premised upon the assumption that “[t]he  
18 number of customers remaining on the natural gas system in the future is likely to shrink,”

---

<sup>232</sup> CUB/100, Jenks/5-6; CUB/400, Jenks/13.

<sup>233</sup> NW Natural/2400, Heiting-Bracken/14 (explaining that the highest annual cost associated with energy efficiency in the Company’s modeling is approximately \$150 million—not \$400 or \$300 million per year, as CUB claims); see also CUB/400, Jenks/13 (second errata filing on July 27, 2022 correcting referenced chart but not revising accompanying text).

<sup>234</sup> NW Natural/1700, Heiting-Bracken/68.

<sup>235</sup> NW Natural/1700, Heiting-Bracken/68.

<sup>236</sup> CUB/100, Jenks/5.

<sup>237</sup> NW Natural/1700, Heiting-Bracken/50.

1 leaving the remaining customers to pay for any stranded costs.<sup>238</sup> The Coalition similarly  
2 asserts that new investments in the gas system could become stranded costs.<sup>239</sup>  
3 However, NW Natural provided evidence showing that customers have continued to  
4 connect to NW Natural’s system at rates consistent with long-term trends and that fewer  
5 and fewer existing customers have chosen to leave the system over time.<sup>240</sup> In other  
6 words, there is no evidence to support the concern that the number of customers on the  
7 gas system is shrinking. The Company also rebutted claims that customers are likely to  
8 leave the gas system in the future due to several factors.

9 First, CUB and the Coalition claim customers are likely to leave because  
10 customers increasingly prefer electric heat pumps over gas furnaces.<sup>241</sup> In fact, the  
11 Company’s analysis suggests that NW Natural customers who use gas as their primary  
12 space heating fuel are not converting to other fuels at an increasing rate.<sup>242</sup> CUB supports  
13 its position with information from NW Natural’s customer surveys,<sup>243</sup> but NW Natural  
14 showed that the surveys on which CUB relied indicate that customer preference for  
15 electric heat pumps increased by just two percent over the last ten years—despite  
16 substantial ratepayer-funded and manufacturer-funded promotions and incentives.<sup>244</sup>  
17 The Company also explained that a customer who replaces an existing gas furnace will  
18 likely continue to use gas as a backup heating source or in other appliances and is unlikely

---

<sup>238</sup> CUB/100, Jenks/6-7; CUB/100, Jenks/13 (“If the customer installs a heat pump and leaves NWN’s system after 20 years, there will also be stranded costs associated with the line extension that have not yet been recovered.”).

<sup>239</sup> Coalition/500, Burgess/15; Coalition/200, Burgess/17.

<sup>240</sup> NW Natural/2400, Heiting-Bracken/26; NW Natural/1700, Heiting-Bracken/73-74.

<sup>241</sup> CUB/100, Jenks/2-3; Coalition/500, Burgess/15.

<sup>242</sup> NW Natural/1700, Heiting-Bracken/74.

<sup>243</sup> CUB/100, Jenks/8.

<sup>244</sup> NW Natural/1700, Heiting-Bracken/53.

1 to leave the gas system entirely.<sup>245</sup> The Coalition claims that shipments of electric heat  
2 pumps are now exceeding shipments of gas furnaces and that electric heat pump  
3 preference will continue to grow for a variety of reasons.<sup>246</sup> Aside from the fact that the  
4 Coalition’s supporting data is nationwide and not consistent with what NW Natural is  
5 seeing in Oregon,<sup>247</sup> the Coalition’s own exhibit prepared by the Northwest Energy  
6 Efficiency Alliance (“NEEA”) shows that gas heating experienced a statistically significant  
7 *increase* over a five-year period to 58 percent of single-family homes in Oregon, whereas  
8 electric heat pumps remained at 11 percent.<sup>248</sup> In fact, the report states that “[g]as fuel  
9 shares for primary heating systems, water heaters, stoves, and ovens have increased,  
10 while the share of other fuel types, such as electric, have decreased.”<sup>249</sup>

11 Second, CUB and the Coalition claim customers will leave due to the challenge  
12 caused by climate change and the resulting decarbonization requirements.<sup>250</sup> But as  
13 explained above, NW Natural is confident that it can comply with the CPP’s  
14 decarbonization requirements at a reasonable cost.

15 Third, CUB and the Coalition claim customers will leave the gas system due to the  
16 increasing cost of conventional gas.<sup>251</sup> In response, NW Natural explained that forecasts  
17 predict that the current increase in prices will not be prolonged.<sup>252</sup> The Company also

---

<sup>245</sup> NW Natural/1800, Taylor/29.

<sup>246</sup> Coalition/700, Stewart/5-7.

<sup>247</sup> NW Natural/2400, Heiting-Bracken/27.

<sup>248</sup> NW Natural/2400, Heiting-Bracken/26 (citing Coalition/706, Stewart/29); Coalition/706, Stewart/5.

<sup>249</sup> Coalition/706, Stewart/6.

<sup>250</sup> CUB/100, Jenks/3-5; Coalition/500, Burgess/15.

<sup>251</sup> CUB/100, Jenks/5-6; Coalition/500, Burgess/15.

<sup>252</sup> NW Natural/1700, Heiting-Bracken/68-69.



1 showed that the delivered cost of natural gas to residential customers in Oregon has  
2 remained stable over the last ten years.<sup>253</sup>

3 Thus, while it is appropriate to monitor gas system growth, technological advances,  
4 and trends in customer preference, there is currently no basis for eliminating the LEA to  
5 address stranded-cost concerns.<sup>254</sup> Importantly, eliminating the LEA is likely to cause the  
6 very issue that CUB and the Coalition are worried about, resulting in harm to existing  
7 customers.<sup>255</sup> Specifically, eliminating the LEA will inevitably create an economic  
8 disincentive for customers to join the system, resulting in decreasing customer counts  
9 over time.<sup>256</sup> And NW Natural’s preliminary modeling shows that existing customers are  
10 worse off if new customers stop joining the system—with bill impacts increasing up to 300  
11 percent or more.<sup>257</sup> This result occurs because existing customers must bear a higher  
12 percentage of the system-wide fixed costs, which outweighs the impact of higher  
13 incremental per-customer compliance costs associated with customer growth.<sup>258</sup> The  
14 Commission should not drive this result by eliminating the LEA.

15 **d) Parties have not shown that building electrification is a viable,**  
16 **reliable, and cost-effective way of decreasing emissions and**  
17 **servicing peak load in Oregon.**

18 Although CUB and the Coalition claim that they have not determined—and are not  
19 asking the Commission to determine—whether shifting building load from the gas to the  
20 electric system is the best path for Oregon to decarbonize,<sup>259</sup> their proposals to eliminate

---

<sup>253</sup> NW Natural/1800, Taylor/52.

<sup>254</sup> NW Natural/2400, Heiting-Bracken/26.

<sup>255</sup> NW Natural/2400, Heiting-Bracken/17-18.

<sup>256</sup> NW Natural/2400, Heiting-Bracken/17.

<sup>257</sup> NW Natural/2400, Heiting-Bracken/18.

<sup>258</sup> NW Natural/2400, Heiting-Bracken/18.

<sup>259</sup> CUB/400, Jenks/5; Coalition/700, Stewart/3.

1 the LEA necessarily imply that they believe the electric system to be capable of reliably  
2 serving current gas load at a lower cost and with less emissions than the gas system.  
3 While a full examination of these issues is plainly outside the scope of this general rate  
4 case proceeding—and would require the coordinated resource planning that NW Natural  
5 recommends—the record in this case shows that there are significant questions and  
6 concerns about shifting building load to the electric system.

7 First, there are significant questions about the ability of the electric system to  
8 reliably serve all of Oregon’s building load. The gas system in Oregon currently serves  
9 roughly 70 percent of Oregon’s space heating needs,<sup>260</sup> and shifting this load to the  
10 electric system increases the risk that Oregonians’ energy needs will not be met.<sup>261</sup> For  
11 example, E3’s study noted that wholesale building electrification would drive the need to  
12 install 20,000 to 40,000 MW of new electric generation capacity and also would require  
13 significant investment in new transmission and distribution infrastructure.<sup>262</sup> Permitting  
14 and constructing a massive amount of new transmission capacity on the necessary  
15 timeline would be extremely challenging, if it is even possible.<sup>263</sup> Shifting all building load  
16 onto one, above-ground system also raises reliability and resiliency concerns.<sup>264</sup> Recent  
17 events have shown that diversification and redundancy in the energy system help reduce  
18 risk to customers and provide the greatest opportunity to achieve clean energy goals

---

<sup>260</sup> NW Natural/1700, Heiting-Bracken/36-37.

<sup>261</sup> NW Natural/1700, Heiting-Bracken/37.

<sup>262</sup> NW Natural/1700, Heiting-Bracken/30.

<sup>263</sup> NW Natural/1700, Heiting-Bracken/34.

<sup>264</sup> NW Natural/1700, Heiting-Bracken/37.

1 without sacrificing reliability.<sup>265</sup> CUB itself states that it is well aware of the challenges  
2 electric utilities face in their effort to decarbonize affordably while maintaining reliability.<sup>266</sup>

3         Second, even if the electric system could reliably serve the additional load, it likely  
4 would cost Oregonians more. E3’s independent analysis found that retaining gas heat in  
5 buildings is a feasible strategy for reliably serving peak heating load while achieving  
6 significant emissions reductions, and E3 showed that the cost of decarbonizing with  
7 continued gas heating is likely to be the same as or lower than if building load is  
8 electrified.<sup>267</sup> More analysis of these issues is needed—for example, E3’s analysis did  
9 not assess the final CPP targets or account for HB 2021’s requirements.<sup>268</sup> But it is  
10 important to note that E3’s analysis indicates that natural gas companies can decarbonize  
11 and continue serving existing and new customers and that this approach is likely less  
12 expensive for Oregonians than wholesale building electrification.<sup>269</sup>

13         Finally, it is not at all clear that electrifying building load would result in decreased  
14 emissions in Oregon. Electric heating in Oregon is often *more* carbon-intensive than gas  
15 heating given the emissions-intensity of the electric sector in Oregon and the ongoing  
16 widespread use of inefficient electric resistance heating.<sup>270</sup> Presently, electrification of  
17 gas heating load using electric resistance heating would result in substantial emissions  
18 increases for nearly all gas utility customers in the state.<sup>271</sup> Even if all gas heating in the

---

<sup>265</sup> NW Natural/1700, Heiting-Bracken/37.

<sup>266</sup> CUB/400, Jenks/7-8.

<sup>267</sup> NW Natural/1700, Heiting-Bracken/25-28.

<sup>268</sup> NW Natural/1700, Heiting-Bracken/23, 26.

<sup>269</sup> NW Natural/1700, Heiting-Bracken/6.

<sup>270</sup> NW Natural/1700, Heiting-Bracken/17-18; 21.

<sup>271</sup> NW Natural/1700, Heiting-Bracken/18.

1 state were replaced with the most commonly installed electric heat pumps tomorrow, it  
2 would reduce emissions in the state by roughly one percent—or possibly not at all.<sup>272</sup> In  
3 contrast, replacing all electric resistance heating in the state with gas furnaces or electric  
4 heat pumps would reduce the emissions and costs to customers by more than half.<sup>273</sup>

5 For all of these reasons, there is no basis for assuming that building electrification  
6 is the best approach to reduce GHG emissions and achieve Oregon’s climate goals.  
7 Instead, the Commission should consider the concerns discussed above and obtain more  
8 information before considering any drastic changes to NW Natural’s LEA that will drive  
9 new load away from the gas system.

10 **6. CUB’s Specific Proposals and Critiques of NW Natural’s LEA Are Not**  
11 **Valid.**

12 Relying on the broad concerns discussed above, CUB specifically proposes that  
13 the LEA should be eliminated entirely through two separate adjustments. First, CUB  
14 recommends that the Commission reject the IRR Model currently employed by NW  
15 Natural and return to the “old methodology” of five years of margin, which was the  
16 approach that NW Natural used prior to 2012.<sup>274</sup> This change would reduce the  
17 residential LEA for space heating from \$2,875 to \$2,330.<sup>275</sup> Second, CUB calculates the  
18 costs that NW Natural will incur on behalf of each new customer over a twenty-year period  
19 to comply with the CPP—somewhere between \$4,500 and \$5,600—and argues that the  
20 LEA should fully incorporate those costs.<sup>276</sup> To do so, CUB calculates the CPP

---

<sup>272</sup> NW Natural/1700, Heiting-Bracken/19-20.

<sup>273</sup> NW Natural/1700, Heiting-Bracken/20.

<sup>274</sup> CUB/100, Jenks/17.

<sup>275</sup> CUB/100, Jenks/17.

<sup>276</sup> CUB/100, Jenks/17.

1 compliance costs as an offset to the \$2,330 LEA, resulting in a negative LEA of between  
2 \$2,200 and \$3,300.<sup>277</sup> While unclear, it does not appear that CUB is asking that the  
3 negative LEA be charged to the new customer.

4 CUB's proposal should be rejected for the following reasons.

5 **a) CUB's proposal will charge new customer for CPP compliance**  
6 **costs twice.**

7 As a general matter, NW Natural has proposed that CPP compliance costs will be  
8 recovered through customer rates on a per-therm charge.<sup>278</sup> This approach is consistent  
9 with the method by which the Company is already recovering the cost of RNG through  
10 the PGA mechanism.<sup>279</sup> Moreover, as explained by Mr. Taylor, recovery of CPP  
11 compliance costs through base rates is an economically efficient approach because it  
12 internalizes prices borne by NW Natural to reduce GHGs and sends an accurate signal  
13 to customers by which they can weigh the costs of heating their homes with gas or  
14 electricity.<sup>280</sup> Importantly, no party argues against the inclusion of CPP compliance costs  
15 in volumetric rates. Thus, CUB's proposal that new customers' LEAs be entirely offset by  
16 estimated CPP compliance costs covering a 20-year period would result in new  
17 customers paying CPP compliance costs twice—once through the offset to their LEA and  
18 a second time through per-therm rates over the next 20 years.<sup>281</sup> This proposal is clearly  
19 flawed and would have the effect not only of double counting CPP compliance costs for

---

<sup>277</sup> CUB/100, Jenks/17.

<sup>278</sup> NW Natural/1800, Taylor/22-23, 30.

<sup>279</sup> NW Natural/1800, Taylor/21-22.

<sup>280</sup> NW Natural/1800, Taylor/22.

<sup>281</sup> NW Natural/1800, Taylor/28; NW Natural/2600, Taylor/7.

1 new customers, but also of loading upfront costs onto new customers who wish to join  
2 the gas system.<sup>282</sup>

3 In his Rebuttal Testimony, Mr. Jenks argues that CUB's LEA proposal was not  
4 really intended to allow NW Natural to recover its CPP compliance costs from new  
5 customers as an upfront charge.<sup>283</sup> Rather, Mr. Jenks explained that "because a new  
6 customer brings incremental CPP compliance costs that increase costs to existing  
7 customers, there is no longer a justification to subsidize the customers' connection to the  
8 system."<sup>284</sup> However, this is a distinction without a difference. To the extent that new  
9 customers create new compliance obligations and compliance costs, the new customer  
10 will pay for these costs on a per-therm basis, like every other NW Natural customer.  
11 Given this fact, CUB's proposed offset to the LEA is either intended as a second recovery  
12 of compliance costs from new customers or it is simply a penalty designed to dissuade  
13 new customers from joining the system. Either way, the approach is inappropriate.

14 **b) CUB's concern about the 30-year recovery period—and the**  
15 **concern regarding stranded assets—are not appropriately**  
16 **addressed by a return to a five-years-margin approach.**

17 As noted above, NW Natural's IRR Model calculates expected revenues over a  
18 30-year period, recognizing both the useful life of utility assets and the period of time the  
19 customer is expected to remain on the system.<sup>285</sup> CUB argues that because customers  
20 are increasingly favoring electric heat pumps, it is no longer reasonable to assume that  
21 new customers will remain on the system beyond the expected life of their gas

---

<sup>282</sup> NW Natural/1800, Taylor/31.

<sup>283</sup> CUB/400, Jenks/24, 30.

<sup>284</sup> CUB/400, Jenks/30.

<sup>285</sup> NW Natural/1800, Taylor/18.

1 appliances.<sup>286</sup> For this reason, CUB argues that the Company’s IRR analysis should be  
2 rejected and that the Company should revert to the five times margin approach that the  
3 Company relied on prior to 2012.<sup>287</sup> This argument, however, is without any real support.

4 First, CUB makes no attempt to explain either why the assumptions inherent in its  
5 approach are more reasonable than the Company’s current IRR Model. Notably, Mr.  
6 Taylor’s updated analysis shows that NW Natural’s current LEA represents a margin  
7 revenue multiplier of 6.2,<sup>288</sup> and CUB does not explain why a multiplier of 5 is more  
8 appropriate.

9 Second, as discussed above, there is not a shred of evidence to support the view  
10 that NW Natural is experiencing any significant increase in customer attrition *or* decrease  
11 in customer additions related to customer preference for electric heat pumps, or any other  
12 reason.<sup>289</sup> As such, there is absolutely no data to suggest that new customers will leave  
13 the gas system altogether when it is time to replace their gas equipment<sup>290</sup> and therefore  
14 no support for CUB’s argument that the IRR Model’s 30-year analysis should be changed.

15 Moreover, even if it **were** reasonable to assume that new customers will ultimately  
16 replace all of their gas appliances with electric appliances and leave the system  
17 altogether—which it is not—the “fix” would not be to decrease or eliminate the LEA, but  
18 rather to revise the LEA model to match the change in assumptions. This is precisely  
19 what Mr. Taylor did in the illustrative analysis presented in his Surrebuttal Testimony

---

<sup>286</sup> CUB/100, Jenks/16.

<sup>287</sup> CUB/100, Jenks/17.

<sup>288</sup> NW Natural/1800, Taylor/19 (explaining updated investment analysis uses margin of \$461.80, which equates to a revenue margin multiplier of 6.2).

<sup>289</sup> NW Natural/2400, Heiting-Bracken/26; NW Natural/1700, Heiting-Bracken/73-74

<sup>290</sup> NW Natural/1700, Heiting-Bracken/53-54; NW Natural/1800, Taylor/29.

1 where he set the depreciable life and term of the IRR analysis to 20 years to match the  
2 average life of a gas furnace.<sup>291</sup> Far from suggesting that the LEA should be reduced or  
3 eliminated, this analysis increased the LEA to \$3,290—which presumably is a result that  
4 CUB would reject.<sup>292</sup>

5 Finally, it is worth noting that the adjustment made by Mr. Taylor in his 20-year  
6 illustrative analysis fully addresses parties’ concerns regarding stranded assets. Using  
7 this 20-year approach, and assuming an update of the applicable depreciation rates to  
8 reflect the 20-year period, the cost of the line extension asset is fully recovered over 20  
9 years—eliminating any concerns regarding a remaining asset if the customer does leave  
10 the gas system when it is time to replace their furnace.<sup>293</sup> To be clear, the data does **not**  
11 support the parties’ concerns regarding stranded assets, and NW Natural is **not**  
12 proposing that LEAs be based on a 20-year analysis. The Company’s point is that, if an  
13 adjustment to the LEA were necessary, it would properly be addressed by updating the  
14 relevant assumptions—and not by completely abandoning a long-standing component of  
15 utility rates that is necessary to balance customer interests.

16 **c) CUB’s argument that eliminating the LEA will not create a**  
17 **barrier to customers joining the system is incorrect.**

18 In defense of its proposal, CUB argues that elimination of the LEA does not create  
19 a substantive barrier to customers’ choice of gas service, and that “[c]ustomers that prefer  
20 gas can still choose to connect to NWN’s system.”<sup>294</sup> In other words, CUB’s position is  
21 that the Commission can eliminate the LEA without impacting NW Natural’s ability to add

---

<sup>291</sup> NW Natural/2600, Taylor/23-24.

<sup>292</sup> NW Natural/2600, Taylor/24.

<sup>293</sup> See NW Natural/2600, Taylor/23-24.

<sup>294</sup> CUB/400, Jenks/16.



1 customers, and presumably without sending a message to the investment community that  
2 the Commission intends to limit growth of the gas system.<sup>295</sup> However, these assertions  
3 are plainly contradicted by the facts in the record.

4 First, as explained by Mr. Taylor, eliminating the LEA increases the cost to new  
5 customers of using natural gas, resulting in an incremental barrier to adopting gas  
6 services.<sup>296</sup> This is not speculation, but a basic economic principle. If the cost of a  
7 product or service increases, certain customers will no longer choose to consume that  
8 product or service.<sup>297</sup> This principle is borne out by NW Natural's experience with  
9 developers, which indicates that they are very sensitive to initial costs of their projects  
10 and choose not to connect to the gas system when they view NW Natural's LEA to be  
11 insufficient.<sup>298</sup> Thus, it can safely be assumed that eliminating NW Natural's LEA will in  
12 fact serve to discourage new customers from joining the system—sending a negative  
13 signal to the investment community.<sup>299</sup>

14 CUB argues that NW Natural failed to provide any evidence that the investment  
15 community would “overreact or react irrationally” if the Commission were to eliminate the  
16 LEA.<sup>300</sup> However, in making this argument, CUB is missing the point. A reduction to or  
17 full elimination of NW Natural's LEA would impact customer growth and the ability of NW  
18 Natural to add economically viable customers, which are the exact type of regulatory

---

<sup>295</sup> See CUB/400, Jenks/20-21, 25.

<sup>296</sup> NW Natural/2600, Taylor/11-12.

<sup>297</sup> NW Natural/2600, Taylor/11-12.

<sup>298</sup> NW Natural/2400, Heiting-Bracken/17.

<sup>299</sup> See NW Natural/2400, Heiting-Bracken/15-17.

<sup>300</sup> CUB/400, Jenks/21.

1 outcomes that the investment community reviews when evaluating investment risk.<sup>301</sup>  
2 Thus, NW Natural is not concerned that investors will overreact or act irrationally, but  
3 rather that they will accurately assess the negative impact that elimination of the LEA  
4 could have on Oregon's regulatory environment and the health of NW Natural's  
5 finances.<sup>302</sup>

6 **d) CUB's proposal to eliminate the presumption of prudence for**  
7 **LEA investments is misplaced.**

8 In addition to its proposal to eliminate the LEA, CUB also asserts that the  
9 "presumption of prudence" associated with capital investments to serve new customers  
10 should be eliminated.<sup>303</sup> More specifically, CUB argues that the Company "should  
11 demonstrate the prudence of these investments, consistent with traditional resource  
12 procurement."<sup>304</sup> In response to NW Natural's request for clarification regarding the  
13 source of the "presumption of prudence," CUB explained that a presumption of prudence  
14 must exist because LEAs have been allowed into customer rates in the Company's last  
15 three rate cases without the Company filing testimony demonstrating that the investments  
16 were prudent.<sup>305</sup> CUB's analysis on this point is faulty for two reasons.

17 First, the prudence of NW Natural's LEAs is not presumed, but rather was  
18 demonstrated by the Company, and approved by the Commission, in 2012 in docket  
19 UG 221.<sup>306</sup> Because NW Natural has simply provided LEAs to new customers consistent  
20 with its Commission-approved tariff, and because no party challenged the provision of the

---

<sup>301</sup> NW Natural/2400, Heiting-Bracken/16.

<sup>302</sup> NW Natural/2400, Heiting-Bracken/15.

<sup>303</sup> CUB/100, Jenks/14; CUB/400, Jenks/34.

<sup>304</sup> CUB/400, Jenks/11.

<sup>305</sup> CUB/613 (CUB Response to NW Natural DR 2).

<sup>306</sup> Order No. 12-408 at 8, 11 and App. B at 4.

1 LEAs, there was no need for the Company to provide testimony specifically justifying the  
2 investments. In other words, LEAs provided pursuant to the Company’s tariff are not  
3 simply presumed prudent, rather the Company already demonstrated the prudence of  
4 such investments when it proposed revisions to Schedule X that the parties—including  
5 CUB—and the Commission accepted in docket UG 221.

6 Second, if CUB is suggesting that a party in the Company’s past rate cases could  
7 have challenged as imprudent the LEAs NW Natural had provided to customers  
8 consistent with its Commission-approved tariff, such a challenge would necessarily have  
9 failed. The Company is required by law to adhere to its Commission-approved tariffs by  
10 providing the LEAs set forth therein until such tariffs are changed.<sup>307</sup>

11 **7. The Coalition’s Specific Proposals and Critiques Are Not Valid.**

12 Like CUB, the Coalition’s witness Ed Burgess recognizes that this Commission  
13 has historically approved line extension policies to balance the fundamental principle of  
14 cost causation, as well as other regulatory policies.<sup>308</sup> However, Mr. Burgess argues that  
15 many of the assumptions on which line extension allowances have been based are flawed  
16 and/or no longer applicable. In particular, Mr. Burgess points to the Washington Utilities  
17 and Transportation Commission’s (“WUTC”) Order No. 01 in the generic investigation  
18 docket UG-210729<sup>309</sup> to support his view that shifts in the policy landscape require a  
19 reconsideration of these historical principles.<sup>310</sup> However, Mr. Burgess’s arguments on  
20 this point are unpersuasive.

---

<sup>307</sup> ORS 757.225.

<sup>308</sup> Coalition/200, Burgess/13.

<sup>309</sup> See Coalition/200, Burgess/13.

<sup>310</sup> Coalition/200, Burgess/29.

1           As an initial matter, the WUTC’s Order in docket UG-210729 does not support Mr.  
2 Burgess’s conclusion in this case that NW Natural’s LEA should be eliminated altogether.  
3 On the contrary, in that case the WUTC requested comments from interested  
4 stakeholders regarding a specific methodology that was used by several gas utilities to  
5 calculate their LEAs—the Perpetual Net Present Value (“PNPV”) methodology.<sup>311</sup> The  
6 WUTC did order the utilities using that methodology, **which did not include NW Natural**,  
7 to revise their calculations—which had the effect of reducing their allowances.<sup>312</sup>  
8 However, the WUTC also referred to its action in that docket as an “interim measure,”  
9 and signaled its intent to “continue to engage in dialogue” with the stakeholders regarding  
10 the energy decarbonization impacts and pathways for electric and gas utilities to meet  
11 state targets.<sup>313</sup> In other words, while the WUTC did in fact closely examine and order  
12 changes to an LEA methodology used by utilities other than NW Natural, it did not propose  
13 to make drastic changes such as those proposed by the Coalition.

14           Moreover, the specific “policy shifts” identified in Mr. Burgess’ testimony are  
15 unsupported by persuasive data and are largely based on speculation. Several of these  
16 purported policy shifts are addressed above in Section III.A.5, but NW Natural’s  
17 responses can be summarized below.

18           1. Increased cost and volatility of gas prices. Mr. Burgess opines that recent  
19 volatility in gas prices means that fuel is less affordable and that new customers

---

<sup>311</sup> See generally *In re Chair Danner’s Motion to Consider Whether Nat. Gas Utils. Should Continue to Use the Perpetual Net Present Value Methodology to Calculate Nat. Gas Line Extension Allowances*, WUTC Docket No. UG-210729.

<sup>312</sup> WUTC Docket No. UG-210729, Order No. 01 at 3, 7 (Oct. 29, 2021).

<sup>313</sup> WUTC Docket No. UG-210729, Order No. 01 at 6.

1 may experience more price risk.<sup>314</sup> He provides a chart showing the NW Spot  
2 Natural Gas index prices from April 2019 to April 2022 to illustrate his point.<sup>315</sup>  
3 However, as explained by Mr. Taylor, this information does not provide a fair  
4 depiction of either historical gas prices, or the level of volatility that can be  
5 expected over the long term.<sup>316</sup> First, natural gas utilities use a full portfolio of  
6 upstream resources to mitigate daily price volatility, including storage assets,  
7 needle peaking facilities, and upstream supply contracts.<sup>317</sup> Moreover, in  
8 focusing only on the last three years of gas prices, Mr. Burgess ignores entirely  
9 the fact that over the last decade gas prices have been relatively stable.<sup>318</sup> And  
10 finally, in order for Mr. Burgess's argument regarding gas prices to have any  
11 relevance in this case, he would need to compare his expected gas prices with  
12 electricity prices, which will also reflect gas price volatility;<sup>319</sup> Mr. Burgess has  
13 not offered such a comparison.

14 2. Stranded cost risk. Mr. Burgess argues that widespread electrification may  
15 result in stranded costs on the gas system.<sup>320</sup> As explained above, concerns  
16 regarding stranded costs on the gas system are not supported by available  
17 data, which show that customers are continuing to join the gas system at  
18 historic levels and that there is no increase in the number of customers leaving

---

<sup>314</sup> Coalition/200, Burgess/16-17.

<sup>315</sup> Coalition/200, Burgess/17.

<sup>316</sup> NW Natural/1800, Taylor/51-53.

<sup>317</sup> NW Natural/1800, Taylor/51.

<sup>318</sup> NW Natural/1800, Taylor/51-52.

<sup>319</sup> NW Natural/1800, Taylor/51-52.

<sup>320</sup> Coalition/200, Burgess/17.

1 the system.<sup>321</sup> Moreover, to the extent that Mr. Burgess believes that new  
2 customers will leave the system when their gas equipment needs replacement,  
3 lowering the LEA is not the appropriate response. On the contrary, adjustments  
4 to the LEA to account for assumptions that customers would leave the system  
5 after the life of a gas furnace result in a higher, and not a lower, LEA.<sup>322</sup>

6 3. Greenhouse gas emissions and climate policy. Mr. Burgess recognizes NW  
7 Natural’s obligations to reduce GHG under the CPP, and argues that the  
8 Company’s CPP-compliance obligation is in conflict with its plans to add  
9 customers.<sup>323</sup> This argument, however, is illogical. All utilities now have  
10 aggressive GHG-reduction requirements—either under the CPP or under HB  
11 2021.<sup>324</sup> Thus, it is only logical for the Commission to assume that these  
12 utilities will add customers over time, but that they can continue to reduce  
13 GHGs by decarbonizing their products. It makes no sense then to argue that  
14 NW Natural’s CPP obligations would suggest that the Company cannot add  
15 customers, or that the new customers’ LEAs should be eliminated.

16 4. Affordability/availability of alternatives. Mr. Burgess provides data that he  
17 claims indicate that electrification is less expensive when compared with gas,  
18 arguing that the findings regarding Seattle should be “broadly applicable in the  
19 Pacific Northwest.”<sup>325</sup> However, NW Natural has explained precisely why this

---

<sup>321</sup> NW Natural/2400, Heiting-Bracken/26; NW Natural/1700, Heiting-Bracken/73-74.

<sup>322</sup> NW Natural/1800, Taylor/34; NW Natural/1802, Taylor.

<sup>323</sup> Coalition/200, Burgess/18.

<sup>324</sup> See NW Natural/2400, Heiting-Bracken/23.

<sup>325</sup> Coalition/200, Burgess/20.

1 data is not representative of NW Natural’s service territory, where most  
2 customers receive electric service from an investor-owned utility whose  
3 generation mix includes substantial fossil fuels.<sup>326</sup> Therefore Mr. Burgess’s  
4 argument should be rejected.

5 5. Indoor air quality. Finally, Mr. Burgess cites a “body of research” suggesting  
6 that there may be health and safety benefits to selection of appliances that do  
7 not rely on gas.<sup>327</sup> While it is beyond the scope of this case for NW Natural to  
8 debate the merits of the reports on which the Coalition is relying, NW Natural  
9 simply notes that there are no documented risks to respiratory health from the  
10 proper use of natural gas stoves by the government agencies and advisory  
11 committees responsible for protecting residential consumer health and  
12 safety.<sup>328</sup> What federal agencies and peer-reviewed scientific studies conclude  
13 is that proper ventilation when cooking with any fuel source is a key step in  
14 mitigating any indoor air quality issues.<sup>329</sup> More importantly—to respond  
15 directly to the Coalition’s argument that customers will prefer electric stoves  
16 instead of gas because of indoor air quality concerns, NW Natural has seen no  
17 evidence that this is the case,<sup>330</sup> and the Coalition has presented no such  
18 evidence. Anything else is pure speculation.

---

<sup>326</sup> NW Natural/1800, Taylor/50; NW Natural/2400, Heiting-Bracken/27.

<sup>327</sup> Coalition/200, Burgess/20-21.

<sup>328</sup> NW Natural/1700, Heiting-Bracken/75.

<sup>329</sup> NW Natural/1700, Heiting-Bracken/75.

<sup>330</sup> NW Natural/2400, Heiting-Bracken/26; NW Natural/1700, Heiting-Bracken/73-74

1                   a)     ***LEAs remain a vital and necessary tool for ensuring fairness***  
2                             ***among customers, and Mr. Burgess’s arguments to the contrary***  
3                             ***are unconvincing.***

4                   In addition to noting policy shifts, Mr. Burgess also seeks to undermine the  
5     foundational principles underlying LEAs. In particular, Mr. Burgess argues that (1) LEAs  
6     are cross-subsidies;<sup>331</sup> (2) LEAs are contrary to the principle of cost causation, which  
7     would require that 100 percent of connection costs be borne by the new customer;<sup>332</sup> and  
8     (3) LEAs are unnecessary because new customers may join the system with or without  
9     the LEA.<sup>333</sup> However, none of these arguments is convincing.

10                  First, LEAs have historically served as a vital ratemaking tool used to balance the  
11     interests of new and current customers.<sup>334</sup> In short, the LEA is calculated to ensure that  
12     the new customer’s revenues “pay down” the utility’s investment to connect the customer  
13     to the system, and that over time, existing customers actually receive a net benefit. As  
14     discussed above, this Commission reaffirmed its commitment to the economic basis for  
15     LEAs as recently as 2020.<sup>335</sup> Therefore, Mr. Burgess’s attempt to undermine the  
16     principles underlying the LEA are in conflict with this Commission’s current policies.

17                  Second, the LEA is not a cross-subsidy. As explained by Mr. Taylor, a cross-subsidy  
18     exists when a company artificially lowers prices for one group of customers by charging  
19     higher prices to another group.<sup>336</sup> The calculation of NW Natural’s LEA, which is based  
20     on a comparison of incremental revenues to incremental costs, specifically ensures that

---

<sup>331</sup> Coalition/200, Burgess/8.

<sup>332</sup> Coalition/200, Burgess/12.

<sup>333</sup> Coalition/200, Burgess/23.

<sup>334</sup> See NW Natural/1800, Taylor/5-6.

<sup>335</sup> Order No. 20-483, App. A at 8.

<sup>336</sup> NW Natural/1800, Taylor/37.



1 existing customers are not required to contribute to the cost of the addition of new  
2 customers.<sup>337</sup>

3 Third, Mr. Burgess's application of the cost-causation principle is misguided. As  
4 explained by Mr. Taylor, while the concept of cost causation provides important guidance  
5 for allocating a utility's embedded costs, Mr. Burgess's use of that concept in this context  
6 ignores entirely that both new and existing customers pay base rates, including the  
7 recovery of annual revenue requirements associated with capital projects.<sup>338</sup> As such,  
8 the gas utility's rates are not designed on an individual customer basis, but rather on a  
9 class average basis.<sup>339</sup> If, as Mr. Burgess suggests, all these CPP compliance costs  
10 were allocated directly to and paid for by each customer when they connect to the  
11 distribution system, new customers would be paying average costs for everyone and  
12 direct costs for themselves.<sup>340</sup>

13 Fourth, Mr. Burgess's argument that customers will join the system regardless of  
14 whether they receive an LEA is entirely off base. To this point, Mr. Burgess takes issue  
15 with the concept of the LEA in and of itself, which he describes as based on the  
16 assumption that it "unlocks incremental new revenues that provide economic benefits to  
17 all customers since those incremental revenues contribute towards the utility's fixed cost  
18 revenue requirements thus putting downward pressure on rates."<sup>341</sup> Mr. Burgess argues  
19 that because there is no evidence that new service line costs are an economic barrier for

---

<sup>337</sup> NW Natural/1800, Taylor 37.

<sup>338</sup> NW Natural/1800, Taylor/39-40.

<sup>339</sup> NW Natural/1800, Taylor/40.

<sup>340</sup> NW Natural/1800, Taylor/39-40.

<sup>341</sup> Coalition/200, Burgess/23.

1 connecting to the gas system, there is no legitimate rationale for the LEA.<sup>342</sup> In support  
2 of his view that new service line costs are not an economic barrier, Mr. Burgess refers to  
3 information provided by NW Natural in discovery that shows that 27 percent of new  
4 customers did not receive an LEA and joined the system nevertheless.<sup>343</sup> Mr. Burgess  
5 suggests that given that many customers will join the system without an LEA, there is no  
6 reason for the LEA and further, providing an LEA where it might not be needed would  
7 allow for “free ridership” on the system.<sup>344</sup> However, this analysis is not only mistaken,  
8 Mr. Burgess’s primary point is also not relevant.

9 NW Natural’s data show that less than half of one percent of new customers do  
10 not receive an LEA—not 27 percent as Mr. Burgess claims.<sup>345</sup> More importantly, the  
11 purpose of the LEA is not, as Mr. Burgess suggests, to remove economic barriers to join  
12 the gas system—or to guess at what percentage of new gas customers would prefer gas  
13 regardless of whether they will receive an allowance.<sup>346</sup> Rather, the purpose of the LEA  
14 is to ensure fairness between existing and new customers.<sup>347</sup> Thus, even if Mr. Burgess  
15 were correct in his view that eliminating the LEA would not necessarily impact the number  
16 of customers that join the gas system, the LEA would be necessary nevertheless to  
17 balance the interests of new and existing customers.<sup>348</sup>

---

<sup>342</sup> Coalition/200, Burgess/23.

<sup>343</sup> Coalition/200, Burgess/23.

<sup>344</sup> Coalition/200, Burgess/23-24.

<sup>345</sup> NW Natural/1800, Taylor/46.

<sup>346</sup> See Coalition/200, Burgess/23.

<sup>347</sup> NW Natural/1800, Taylor/6.

<sup>348</sup> NW Natural/1800, Taylor/48.

1                   **b)     *Mr. Burgess’s analysis of customer benefits under NW Natural’s***  
2                   ***current LEA is flawed.***

3           Mr. Burgess makes several arguments specific to NW Natural’s calculation of its  
4 LEA, concluding that the LEA constitutes an inappropriate cross-subsidy of new  
5 customers. These arguments should all be rejected.

6           Contrary to Mr. Burgess’s claim, the line extension allowance provided to new non-  
7 residential customers is not unlimited.<sup>349</sup> That allowance is determined by a discounted  
8 cash flow calculation that limits the allowance to an amount that ensures the addition of  
9 the new customer results in a net benefit over time to existing customers over the period  
10 of the analysis.<sup>350</sup>

11          Mr. Burgess is incorrect when he states that the Company’s rate increase could be  
12 reduced by six percent if no LEAs were allowed going forward.<sup>351</sup> Mr. Burgess’s logic on  
13 this point focuses only on the cost of the LEA but ignores entirely the revenues expected  
14 from the new customer.<sup>352</sup>

15          Mr. Burgess argues that under NW Natural’s LEA, the “payback” period is 30 years,  
16 and it will therefore take 30 years before existing customers begin to realize benefits from  
17 the addition of a new customer to the system.<sup>353</sup> However, in making this statement, Mr.  
18 Burgess is confusing the period of NW Natural’s analysis—which is in fact 30 years—with  
19 the number of years before existing customers begin to benefit from the revenues  
20 attributable to the new customer.<sup>354</sup> On the contrary, as explained in Mr. Taylor’s

---

<sup>349</sup> NW Natural/1800, Taylor/37.

<sup>350</sup> NW Natural/1800, Taylor/37.

<sup>351</sup> Coalition/200, Burgess/11.

<sup>352</sup> NW Natural/1800, Taylor/38.

<sup>353</sup> Coalition/200, Burgess/15.

<sup>354</sup> NW Natural/1800, Taylor/41-42.

1 testimony, by year 12 of the investment analysis, a new customer will have contributed  
2 more operating cash flow than the full cost of the maximum allowance.<sup>355</sup> This means  
3 that for years 13 and beyond, all of the operating cash flow associated with new  
4 customers is a net benefit to the system, including to existing customers.<sup>356</sup>

5 In sum, neither CUB's and the Coalition's broad policy concerns nor their specific  
6 critiques justify eliminating NW Natural's LEA in this case. If the Commission wishes to  
7 consider these proposals further, it should do so in a generic docket and only after  
8 obtaining more information from coordinated utility resource planning efforts.

9 **B. RNG AAC**

10 NW Natural's proposed Schedule 198 (Renewable Natural Gas Adjustment  
11 Mechanism) is an AAC designed to recover NW Natural's prudently incurred qualified  
12 investments in RNG.<sup>357</sup> An AAC is defined in ORS 757.210(1)(b) as "a provision of a rate  
13 schedule that provides for rate increases or decreases or both, without prior hearing,  
14 reflecting increases or decreases or both in costs incurred, taxes paid to units of  
15 government or revenues earned by a utility . . ." In short, an AAC allows for changes to  
16 rates to reflect certain specified costs, investments, or revenue outside of a general rate  
17 case. NW Natural's proposal is consistent with the requirements of Senate Bill 98, which  
18 specifies that qualified RNG investments will be recoverable through an AAC.<sup>358</sup>

---

<sup>355</sup> NW Natural/2600, Taylor/31-32.

<sup>356</sup> See NW Natural/2600, Taylor/32

<sup>357</sup> NW Natural proposed Schedule 198 in Advice No. 20-19, subsequently docketed as UG 411 and consolidated with UG 435 on January 26, 2022. The term "qualified investments" is defined in ORS 757.392(5).

<sup>358</sup> ORS 757.396.

1           The Company structured Schedule 198 to provide recovery for its prudently  
2 incurred costs of RNG investments consistent with Senate Bill 98. Although parties  
3 disagree on certain issues related to Schedule 198, Staff, CUB, and the Company appear  
4 to agree on the general structure of Schedule 198, which includes the following key  
5 elements:

- 6           • All costs associated with RNG qualified investments will be tracked  
7           separately from base rates.
- 8           • By February 28th of each year, NW Natural will make a filing seeking to  
9           include the projected revenue requirement associated with new RNG  
10          investments in rates.
- 11          • NW Natural will annually update the forecasted cost of previously approved  
12          RNG investments in rates on August 1st. Capital investments will be  
13          subject to recovery based on the undepreciated balance as of the rate-  
14          effective date.
- 15          • Prior to changing rates, NW Natural will attest that all RNG projects are  
16          currently operating and providing utility service to Oregon customers. If a  
17          project is no longer producing and is retired while there is still  
18          undepreciated capital investment associated with the project, NW Natural  
19          will remove that investment from its calculation of its return on rate base

1 from the mechanism and will earn the time value of money on its  
2 undepreciated capital investment.<sup>359</sup>

3 • Costs would be allocated to all customer classes, except storage  
4 customers, because the Company is the point of regulation under the  
5 CPP.<sup>360</sup>

6 • Once NW Natural expects to meet the cost cap in ORS 757.396(5), it will  
7 meet with intervenors and Staff to discuss changes to the AAC, and  
8 address how ratemaking should occur once the cost cap is reached<sup>361</sup>.

9 However, Staff, CUB, and the Company disagree on three specific proposals made  
10 by NW Natural. These proposals are:

11 • Deferring the costs of the qualified investments between the in-service date  
12 and the rate effective date.

13 • Deferring the differences between forecasted and actual costs can be  
14 recovered in rates, as well as the forecasted and actual revenues received  
15 for the sale of physical gas.<sup>362</sup>

16 • Allowing the Company to propose a rate effective date other than  
17 November 1 if it can demonstrate that it is in the public interest to do so.

---

<sup>359</sup> In Reply Testimony (NW Natural/1600, Kravitz/35), the Company stated that the time value of money should reflect its cost of debt. In Surrebuttal Testimony (NW Natural/2500, Kravitz/4), NW Natural stated that it agreed with CUB that it is not necessary to determine how to measure the time value of money in these consolidated proceedings. Rather, this determination can be made if an RNG project is retired early. See CUB/500, Gehrke/21-22.

<sup>360</sup> NW Natural/1500, Kravitz/13.

<sup>361</sup> NW Natural originally proposed reviewing Schedule 198 within three years of its effective date, but subsequently indicated it would accept CUB's proposal to review Schedule 198 after NW Natural reached the cost cap. See NW Natural/1501, Kravitz/2; NW Natural/1600, Kravitz/35-36.

<sup>362</sup> As explained in the subsequent section regarding the Lexington RNG Project, NW Natural will sell the physical gas the RNG project produces to offset the customers' cost of the project. The Company will retain the RTCs to meet ORS 757.396 sales targets, as well as for CPP compliance.

1 The other parties to this proceeding have either not taken a position on the AAC (the  
2 Coalition and SBUA) or have indicated that they do not outright oppose the AAC, but  
3 would not assign costs to transport customers and would limit the Company's ability to  
4 seek deferrals (AWEC).

5 **1. Schedule 198 Will Provide Benefits to Both Customers and the**  
6 **Company if Approved.**

7 Schedule 198 has three primary benefits. First, it ensures that NW Natural will  
8 recover the costs of qualified investment in RNG in a timeframe that is consistent with  
9 customers receiving the benefits of such investments. NW Natural's investments in RNG  
10 will benefit the Company's customers as soon as they are placed into service.<sup>363</sup> As  
11 explained by Staff witness, Matt Muldoon, while the AAC is beneficial to the Company,  
12 there are customer equity benefits as well.<sup>364</sup>

13 Second, timely recovery of costs through Schedule 198 prevents the accumulation  
14 of substantial deferrals between general rate cases, which NW Natural would seek to  
15 utilize to recover its prudently incurred costs if Schedule 198 is not adopted.<sup>365</sup>

16 Finally, the AAC proposed by NW Natural will require the Company to make an  
17 annual filing that updates each RNG project's revenue requirement, including a reduction  
18 in rate base due to depreciation.<sup>366</sup> This approach provides customers with the benefits  
19 of accumulated depreciation sooner than would occur under normal ratemaking  
20 processes, where that depreciation would not be recognized until new rates are adopted

---

<sup>363</sup> NW Natural/1600, Kravitz/26.

<sup>364</sup> Staff/1800, Muldoon/24.

<sup>365</sup> NW Natural/1600, Kravitz/26.

<sup>366</sup> NW Natural/1600, Kravitz/26.

1 in a general rate case.<sup>367</sup> CUB supports an RNG AAC for this reason, stating that it  
2 “recognizes the customer value of updating the revenue requirement of RNG projects for  
3 accumulated depreciation on an annual basis, which is not possible under a traditional  
4 ratemaking approach.”<sup>368</sup>

5 **2. The Commission Should Reject the Parties’ Proposed Modifications**  
6 **and Instead Approve the Company’s Proposed Schedule 198 Because**  
7 **it Fairly Balances the Interests of Customers and the Company.**

8 NW Natural asks the Commission to approve its proposed Schedule 198 as  
9 drafted. CUB however argues that NW Natural’s proposed cost recovery mechanism is  
10 unbalanced between customers and the Company.<sup>369</sup> CUB therefore proposes an  
11 alternative mechanism that would not allow the Company to file for a deferral between  
12 the in-service date of the RNG project and the rate effective date<sup>370</sup>, while allowing NW  
13 Natural to add new RNG assets to rates only on November 1<sup>st</sup> of each year<sup>371</sup>. CUB’s  
14 proposal would, however, allow NW Natural to defer differences between forecasted and  
15 historical RNG costs and actual costs, but would make the deferred amounts subject to  
16 an earnings test that would eliminate potential RNG cost adjustments if the Company is  
17 earning within 100 basis points of its allowed return on equity (“ROE”).<sup>372</sup> In its Rebuttal  
18 Testimony, CUB modified its proposal to allow NW Natural to update existing projected

---

<sup>367</sup> NW Natural/1600, Kravitz/26.

<sup>368</sup> CUB/200, Gehrke/25.

<sup>369</sup> CUB/500, Gehrke/11.

<sup>370</sup> CUB/500, Gehrke/9. As explained below, CUB does not oppose a deferral for the Lexington RNG project, given its unique circumstance as the first RNG project the Company pursued and the Company’s willingness to delay seeking a decision for Schedule 198 to incorporate stakeholder feedback.

<sup>371</sup> CUB/500, Gehrke/8.

<sup>372</sup> CUB/500, Gehrke/9.



1 costs on August 1<sup>st</sup> of each year<sup>373</sup> and the Company understands that CUB otherwise  
2 agrees with the structure of proposed Schedule 198.<sup>374</sup>

3 Staff similarly asks the Commission to reject the Company's proposal to allow rate  
4 changes on a date other than November 1<sup>st</sup> and to not allow deferrals between the in-  
5 service and rate effective date.<sup>375</sup> If the Commission does allow the Company to defer  
6 costs, Staff argues that the ROE on deferrals should be the Commission-authorized ROE  
7 minus 100 basis points.<sup>376</sup> Additionally, Staff recommends a deadband of plus or minus  
8 50 basis points for true-up between forecast and actuals.<sup>377</sup>

9 AWEC has not outright opposed an AAC to accommodate SB 98 projects—though  
10 it does not support an AAC that assigns CPP compliance costs to transport  
11 customers<sup>378</sup>—but the Company remains unclear on the scope of AWEC's concerns with  
12 the Company's proposed Schedule 198.<sup>379</sup> AWEC does support an earnings test for  
13 deferrals<sup>380</sup> and assigning RNG costs to only sales customers.<sup>381</sup> However, AWEC has  
14 not indicated that it opposes the general structure of the AAC described above, except  
15 regarding allocating costs to transport customers.<sup>382</sup> The Company maintains that its  
16 proposed cost recovery mechanism for qualified RNG investments is fairly balanced

---

<sup>373</sup> CUB/500, Gehrke/9.

<sup>374</sup> NW Natural/2500, Kravitz/3-4.

<sup>375</sup> Staff/1800, Muldoon/21-22.

<sup>376</sup> Staff/1800, Muldoon/22.

<sup>377</sup> Staff/1800, Muldoon/22.

<sup>378</sup> AWEC/200, Mullins/16.

<sup>379</sup> NW Natural/2500, Kravitz/3.

<sup>380</sup> AWEC/200, Mullins/17.

<sup>381</sup> AWEC/200, Mullins/3.

<sup>382</sup> AWEC/200, Mullins/16.

1 between the Company and its customers, disagrees with CUB's, Staff's, and AWEC's  
2 proposed revisions, and asks the Commission to approve Schedule 198 as proposed.

3 **a) *Deferrals should be permitted between the in-service date & rate***  
4 ***effective date.***

5 Deferrals between the in-service date of the RNG project and the rate effective  
6 date should be permitted to ensure that Schedule 198 is fairly balanced between the  
7 Company and its customers. NW Natural proposes to set a November 1 date for rate  
8 changes associated with Schedule 198 because that date aligns with the Company's PGA  
9 and it has historically been targeted as the rate effective date for the Company's general  
10 rate cases.<sup>383</sup> NW Natural views its proposal as a sensible approach to limit rate changes  
11 throughout the year. NW Natural also proposes the November 1 rate effective date to  
12 give stakeholders certainty regarding the Schedule 198 filing process.<sup>384</sup> Specifically,  
13 NW Natural proposes filing its application seeking Commission approval of new RNG  
14 projects by February 28, thereby setting a predictable annual process that would start no  
15 later than February 28 and conclude on November 1.<sup>385</sup> Although the Company does  
16 propose to retain some flexibility to change the rate effective date of November 1 if it  
17 demonstrated that it was in the public interest to do so, it fully expects to use that  
18 exception sparingly given the importance of minimizing the frequency of rate changes  
19 and providing certainty to stakeholders.<sup>386</sup>

---

<sup>383</sup> NW Natural/2500, Kravitz/5.

<sup>384</sup> NW Natural/2500, Kravitz/5.

<sup>385</sup> NW Natural/2500, Kravitz/5.

<sup>386</sup> NW Natural/2500, Kravitz/5.

1           The Company requests the ability to defer the cost of service for each project  
2 between the date the project was placed in-service and the rate effective date.<sup>387</sup> This is  
3 an important feature to NW Natural because, without a deferral, it would not have an  
4 opportunity to recover the costs of its RNG investments between the in-service date and  
5 the rate effective date. Moreover, this deferral is even more important if the Commission  
6 were to grant CUB's proposal to lock in a November 1 rate effective date with no  
7 exceptions.<sup>388</sup> As noted in Surrebuttal Testimony, NW Natural would be agreeable to  
8 CUB's proposal to prohibit any exceptions to the November 1 rate change if the  
9 Commission were to approve the use of deferrals between the in-service date and the  
10 rate effective date of RNG investments.<sup>389</sup>

11           In addition to the considerations above, the ratemaking structure of NW Natural's  
12 proposal manages regulatory lag in a symmetrical fashion between the Company and  
13 customers. As noted above, under the Company's proposal, one element of regulatory  
14 lag is addressed by annually updating the accumulated depreciation balance in rate base,  
15 which under traditional ratemaking would only occur when the Company has a general  
16 rate case.<sup>390</sup> In other words, when capital projects are approved in rate cases and  
17 established in the Company's rate base, that rate base is set until the next rate case,  
18 even though the capital projects are depreciating.<sup>391</sup> Generally, this ratemaking approach  
19 is balanced because utilities then accept the regulatory lag on capital projects until such

---

<sup>387</sup> NW Natural/2500, Kravitz/5.

<sup>388</sup> See CUB/500, Gehrke/20-21.

<sup>389</sup> NW Natural/2500, Kravitz/17-18.

<sup>390</sup> NW Natural/2500, Kravitz/6.

<sup>391</sup> NW Natural/2500, Kravitz/6.

1 time as rate base is updated again. With the Company’s proposal, however, there is no  
2 anticipated regulatory lag in the Company’s favor because the Company will annually  
3 reflect the depreciated rate base through the annual update to the cost of service.<sup>392</sup> This  
4 treatment benefits customers because it reduces rates due to declining rate base more  
5 dynamically. Given this treatment, the Company also believes that it is appropriate to  
6 utilize symmetry in the ratemaking process by reducing the regulatory lag between each  
7 project’s in-service date and rate-effective date, which allows the Company the  
8 opportunity to fully recover its prudently incurred costs.<sup>393</sup> Without this balance, the lack  
9 of a deferral would cause a systematic under-recovery of a project’s cost of service.

10 In seeking this type of a deferral, NW Natural is seeking only the opportunity to  
11 demonstrate that the costs incurred are prudent and, therefore, can be recovered in rates.  
12 NW Natural should have this opportunity because ORS 757.394 and ORS 757.396 permit  
13 NW Natural to recover all its prudently incurred costs in acquiring RNG. Furthermore, in  
14 Order No. 20-227 where the Commission adopted administrative rules to implement ORS  
15 757.390-398, the Commission stated: “The legislature directed us, in ORS 757.394(3), to  
16 adopt rules to establish a process for natural gas utilities to fully recover the costs  
17 associated with a large or small renewable natural gas program. . . .”<sup>394</sup>

18 Contrary to Staff’s and CUB’s arguments, permitting such a deferral does not result  
19 in “guaranteed”<sup>395</sup> or “automatic”<sup>396</sup> cost recovery, nor does it result in an AAC that is

---

<sup>392</sup> NW Natural/2500, Kravitz/6

<sup>393</sup> NW Natural/2500, Kravitz/7.

<sup>394</sup> *In re Rulemaking Regarding the 2019 Senate Bill 98 Renewable Nat. Gas Programs*, Docket AR 632, Order No. 20-227 at 14 (July 16, 2020).

<sup>395</sup> CUB/500, Gehrke/19.

<sup>396</sup> Staff/1800, Muldoon/25.

1 unbalanced in the Company's favor.<sup>397</sup> Deferred costs carry the risk of disallowance,  
2 which is why Commission precedent states that deferrals earn interest at the authorized  
3 rate of return prior to amortization.<sup>398</sup> In addition, as demonstrated above, the Company  
4 has worked to craft an AAC that fairly balances the customer's and the Company's  
5 interests by seeking to limit regulatory lag in a symmetrical fashion and to minimize the  
6 frequency of rate changes. This type of treatment is also consistent with how electric  
7 utilities recover the cost of their renewable investments. They are permitted to defer the  
8 costs between the in-service date of a renewable electric project and the rate effective  
9 date pursuant to a similar AAC.<sup>399</sup>

10 For all these reasons, NW Natural continues to believe that it should be permitted  
11 to defer costs between the in-service date of an RNG project and the rate effective date.  
12 The Company understands CUB's strong support of a fixed November 1 rate effective  
13 date for new RNG projects<sup>400</sup> and is willing is to forgo any adjustment to the November 1  
14 date if it can request such a deferral (and, as explained in the next section, the deferral is  
15 not subject to an earnings test threshold that is lower than the Company's authorized rate  
16 of return). If, however, the Commission decides that deferrals are not appropriate or are

---

<sup>397</sup> CUB/500, Gehrke/11.

<sup>398</sup> *In re Pub. Util. Comm'n of Or. Staff Request to Open an Investigation Related to Deferred Accounting*, Docket UM 1147, Order No. 05-1070 at 14 (Oct. 5, 2005); Docket UM 1147, Order No. 06-507 at 4 (Sept. 6, 2006). See also *In re Portland Gen. Elec. Co., Request for a Gen. Rate Revision*, Docket UE 394, CUB's Response to PGE's Motion for Clarification at 3 (May 23, 2022) (stating that this precedent is a "bedrock principle" of the Commission).

<sup>399</sup> Order No. 07-572 at 6. (Portland General Electric (PGE) submitted its Schedule 122 Renewable Adjustment Clause "RAC" tariff in Advice No. 07-21 and Pacific Power submitted its Schedule 202 RAC tariff in Advice No. 07-016. The parties to UM 1330 reached a comprehensive settlement and agreed that the proposed tariffs, combined with other provisions of the settlement agreement, satisfied the requirements of SB 838, the Oregon Renewable Energy Act. PGE filed its Schedule 122 RAC tariff as a compliance filing in Docket UM 1330 on December 21, 2007, and Pacific Power filed its Schedule 202 RAC tariff as a compliance filing in that docket on December 27, 2007.).

<sup>400</sup> CUB/500, Gehrke/20-21.

1 otherwise subject to an earnings test proposed by AWEC that is set at a threshold lower  
2 than the authorized rate of return (see below), then the Commission should not establish  
3 a fixed rate effective date for new RNG qualified investments (November 1). Rather, the  
4 Commission should avoid adopting a fixed rate effective date and instead allow the  
5 Company to appropriately time Schedule 198 proceedings so that rates go into effect  
6 concurrent with the project in-service date or shortly thereafter.<sup>401</sup> This treatment would  
7 give the Company the opportunity to fully recover its prudently incurred costs, but would  
8 increase the frequency of rate changes and potentially lead to overlapping AAC  
9 proceedings for multiple RNG projects.<sup>402</sup> For this reason, the Company believes a  
10 deferral with a fixed November 1st date is preferable. But, if that option is not available,  
11 NW Natural will seek to time the rate effective date with the in service date in order to  
12 give it the opportunity to recover its costs.

13 **b) *AWEC's proposed earnings test is inconsistent with ORS***  
14 ***757.390-398.***

15 NW Natural believes that AWEC's proposal to set an earnings test set at 100 basis  
16 points below the Company's authorized rate of return is unreasonable and inconsistent  
17 with ORS 757.390-398, which is meant to incentivize the acquisition of RNG by allowing  
18 natural gas utilities to recover all prudently incurred costs, including "the cost of capital  
19 established by the commission in the large natural gas utility's most recent general rate  
20 case."<sup>403</sup> If such an earnings test were adopted, NW Natural would lose the opportunity  
21 to recover its prudently incurred costs of the RNG project unless it was significantly under-

---

<sup>401</sup> NW Natural/2500, Kravitz/12.

<sup>402</sup> NW Natural/2500, Kravitz/13.

<sup>403</sup> ORS 757.396(3).

1 earning. Such an earnings test would be contrary to ORS 757.394 and ORS 757.396,  
2 which does not condition the opportunity to recover prudently incurred costs on whether  
3 NW Natural is significantly under-earning.

4 Furthermore, the Commission is not obligated to impose an earnings test on a  
5 deferral subject to an automatic adjustment clause<sup>404</sup> and NW Natural does not believe  
6 one is appropriate in this instance. Again, by seeking a deferral, the Company would be  
7 seeking only the opportunity to recover its prudently incurred costs, as provided for in  
8 ORS 757.394 and ORS 757.396. Moreover, subjecting the Company to an earnings test  
9 threshold that is set lower than the Company's authorized rate of return, as proposed by  
10 AWEC, would create rather than remove barriers to decarbonization. If the Commission,  
11 however, believes that an earnings test is appropriate, then the threshold for that test  
12 should be set at 100 basis points above the Company's authorized rate of return.<sup>405</sup> This  
13 proposal is more consistent with ORS 757.394 and ORS 757.396, as well as state policy  
14 in general, that promotes the acquisition of RNG and ensures the recovery of those  
15 prudently incurred costs while also addressing customers' concerns regarding cost  
16 recovery.<sup>406</sup>

17 However, if the Commission were to adopt an earnings test similar to the one  
18 proposed by AWEC that is set lower than the Company's authorized rate of return, then  
19 NW Natural would request to have flexibility to time the rate effective date so that it  
20 coincides with the in-service date of its RNG investments in order to minimize deferrals.<sup>407</sup>

---

<sup>404</sup> ORS 757.259(5).

<sup>405</sup> NW Natural/2500, Kravitz/16.

<sup>406</sup> NW Natural/2500, Kravitz/16.

<sup>407</sup> NW Natural/2500, Kravitz/16.

1 This treatment would give the Company the opportunity to recover all of its prudently  
2 incurred costs. As explained above, a possible downside for this approach is that it could  
3 also lead to multiple rate changes in a year and the potential for overlapping Schedule  
4 198 proceedings for multiple RNG projects.

5 **c) *Deferral for differences between forecasted RNG costs and***  
6 ***actual RNG costs.***

7 The Company originally proposed a deferral to recover the differences between  
8 forecasted RNG costs and actual RNG costs. Parties, however, either outright opposed  
9 the deferral (AWEC)<sup>408</sup> or sought to subject the deferral to an earnings test that would  
10 only trigger if the Company were under-earning or over-earning to a significant degree  
11 (CUB and Staff).<sup>409</sup>

12 In Surrebuttal Testimony, NW Natural made a proposal to attempt to address these  
13 concerns. Rather than subjecting the deferral to an earnings test that would only trigger  
14 if the Company were under-earning or over-earning to a very significant degree, the  
15 Company would seek to defer only the difference between the forecasted and actual  
16 revenues of the physical gas sales from its RNG projects.<sup>410</sup> Under this proposal, the  
17 Company would bear the risk of any differences between forecasted and actual cost or  
18 revenues, except for physical gas sales where the Company does not control the market  
19 price. This deferral would fully address Staff's and CUB's underlying reasons for  
20 proposing an earnings test—Staff stated it recommended an earnings test to incentivize

---

<sup>408</sup> AWEC/100, Mullins/42.

<sup>409</sup> Staff/1800, Muldoon/22; CUB/500, Gehrke/9.

<sup>410</sup> As explained in the subsequent section, NW Natural will sell the physical gas the RNG project produces to offset the customers' cost of the project. The Company will retain the RTCs to meet ORS 757.396 sales targets, as well as for CPP compliance.



1 the Company to operate efficiently.<sup>411</sup> Similarly, CUB recommended an earnings test so  
2 that the Company would bear some of the risks of its RNG investments<sup>412</sup>—rendering an  
3 earnings test unnecessary. That is, under this approach, NW Natural would bear the risk  
4 for differences between forecast costs and actual costs, except for physical gas sales,  
5 which incentivizes it to operate efficiently. The Company has also attempted to address  
6 AWEC’s concern by largely eliminating the annual true up except for physical gas sales.  
7 Finally, this approach would not be one-sided in favor of the Company. Customers would  
8 benefit from any physical gas sales revenue that is greater than forecasted. NW Natural  
9 is hopeful that its Surrebuttal Testimony proposal adequately address parties’ concerns  
10 on this issue.

11 **C. Lexington RNG Project Cost of Service and Rate Spread**

12 The Lexington RNG project entered service in January 2022 and is located  
13 adjacent to a Tyson Fresh Meats beef packaging plant in Lexington, Nebraska.<sup>413</sup> The  
14 project converts methane (raw biogas) derived from the anaerobic digestion of food  
15 processing-based wastewater and other byproducts at the Tyson Fresh Meats beef  
16 packaging plant into RNG.<sup>414</sup> The RNG is then injected into a common carrier pipeline  
17 and the energy content of that gas is sold to a gas marketer. The environmental attributes  
18 of the gas—the renewable thermal credits (“RTCs”)<sup>415</sup>—are retained by NW Natural to  
19 meet RNG sales targets in ORS 757.396<sup>416</sup> and CPP compliance. Both the ORS 757.396

---

<sup>411</sup> Staff/1800, Muldoon/22.

<sup>412</sup> CUB/500, Gehrke/15.

<sup>413</sup> NW Natural/1100, Chittum/6.

<sup>414</sup> NW Natural/1100, Chittum/7.

<sup>415</sup> OAR 860-150-0010(15).

<sup>416</sup> See OAR 860-150-0050(7).

1 RNG sales targets and the CPP permit this type of tracking of environmental attributes,  
2 known as book-and-claim accounting,<sup>417</sup> and neither program requires NW Natural to  
3 track the physical gas.<sup>418</sup>

4 As explained below, NW Natural has demonstrated in this proceeding that: 1) the  
5 Lexington RNG project is prudent and should be included in rates; 2) the Company should  
6 be permitted to amortize the deferral associated with the project; 3) AWEC's proposed  
7 disallowance of distributions to the project's co-developer, BioCross, LLC, is without  
8 merit; 4) the tax issue that AWEC raised was already addressed in another docket, and  
9 5) the costs of the Lexington RNG project should be allocated to all customer classes,  
10 except storage, on an equal cents per therm basis, including customers with special  
11 contracts.

12 **1. No Party Questions the Prudence of the Lexington RNG Project.**

13 The Lexington RNG project meets the Commission's standard for prudence and,  
14 therefore, the Company should be allowed to fully recover the project's cost in rates.<sup>419</sup>

---

<sup>417</sup> See *In re Rulemaking Regarding the 2019 Senate Bill 98 Renewable Nat. Gas Programs*, Docket AR 632, Staff Report at 7 (Mar. 11, 2020) (the "rules establish a 'book-and-claim' accounting system, whereby RTCs and the associated attestations regarding environmental claims about the RNG the RTCs were originally associated with can be tracked electronically from the point in time when the RNG is injected into a common carrier pipeline, with no need to track the physical gas itself."); Order No. 20-227 at 5 (adopting OAR 860-150-0050(7) and noting DEQ support for book-and-claim accounting, which "allows electronic tracking of RTCs as of injection into a common carrier pipeline, with no need to track the physical gas," and that "[t]he approach is consistent with how RNG is tracked in the Oregon Clean Fuels Program, as well as in the California Low Carbon Fuel Standard.").

<sup>418</sup> *Id.* Regarding the CPP, the DEQ Staff Report, which accompanied the final CPP rules, stated in response to a comment from NW Natural: "The biomethane can be sourced from projects anywhere in North America, as long as the biomethane is injected into a common carrier pipeline network. The natural gas utility can claim the same volume of biomethane via displacement, also known as book and claim, without tracking the gas to a specific end-user." Rulemaking, Action Item A, Greenhouse Gas Emissions Program 2021 Rulemaking Climate Protection Program, at 313-14 (Dec. 16, 2021) available at: [https://www.oregon.gov/deq/EQCdocs/121621\\_ItemA.pdf](https://www.oregon.gov/deq/EQCdocs/121621_ItemA.pdf).

<sup>419</sup> ORS 757.394(3); ORS 757.396(2).

1 The prudency standard determines “whether the company's actions, based on all that it  
2 knew or should have known at the time, were reasonable and prudent in light of the  
3 circumstances which then existed . . . such a determination may not properly be made on  
4 the basis of hindsight judgments, nor is it appropriate for the [Commission] to merely  
5 substitute its best judgment for the judgments made by the company's managers.”<sup>420</sup>

6 NW Natural has presented detailed testimony and supporting exhibits that  
7 demonstrate how the Lexington RNG project satisfies the prudency standard.  
8 Specifically, the testimony describes: 1) how the Company evaluated the Lexington RNG  
9 project, as well as other options to acquire RNG through purchases or other investment  
10 opportunities,<sup>421</sup> 2) how this evaluation led the Company to conclude that the Lexington  
11 RNG project was the least cost/least risk project that it could pursue at the time the  
12 investment decision was made in late 2020,<sup>422</sup> 3) the due diligence that the Company  
13 conducted throughout this evaluation process,<sup>423</sup> and 4) how the Company addressed  
14 the risks of the project.<sup>424</sup>

15 No party argues that NW Natural has failed to meet the prudency standard.<sup>425</sup> Staff  
16 “concludes that NW Natural’s decision to invest in the Lexington RNG satisfies the  
17 Commission’s standard for prudent investment.”<sup>426</sup> In Opening Testimony, CUB stated

---

<sup>420</sup> *In re PacifiCorp, dba Pac. Power, Request for a Gen. Rate Revision*, Docket UE 246, Order No. 12-493 (Dec. 20, 2012).

<sup>421</sup> NW Natural/1100, Chittum/23-40.

<sup>422</sup> NW Natural/1100, Chittum/23-40.

<sup>423</sup> NW Natural/1100, Chittum/40-46.

<sup>424</sup> NW Natural/1100, Chittum/46-54.

<sup>425</sup> In its Opening Testimony, the Coalition argued that the Lexington RNG project was inconsistent with ORS 757.390-398 and the CPP and, therefore, is imprudent on that basis. Coalition/100, Apter/18-24. The Coalition has since withdrawn that testimony. Coalition/600, Apter/2. SBUA has not taken a position on this issue.

<sup>426</sup> Staff/1800, Muldoon/9.

1 that it “finds the project to be prudent at this time” and has not recommended any  
2 disallowances in subsequent testimony.<sup>427</sup> Although AWEC has made several proposals  
3 regarding the rate treatment of the project that are addressed in detail below, it does not  
4 argue that NW Natural’s decision to pursue and complete the Lexington RNG project is  
5 imprudent. Thus, the uncontroverted evidence in this case demonstrates that NW  
6 Natural’s investment in the Lexington RNG project is prudent and should be fully  
7 recovered in rates.

8 **2. AWEC’s Arguments Against Amortizing the Lexington RNG Project**  
9 **Deferred Costs are Without Basis.**

10 The deferral associated with the Lexington RNG project should be approved and  
11 amortized over the Test Year (November 1, 2022 to October 1, 2023). This deferral is  
12 primarily for the project’s cost-of-service between the in-service date and the rate effective  
13 date (November 1, 2022), as well as for some additional expenses prior to the in-service  
14 date.<sup>428</sup>

15 AWEC states that it is “not aware of a deferral request.”<sup>429</sup> However, contrary to  
16 AWEC’s suggestion, NW Natural filed a timely request for a deferral of costs associated  
17 with the Lexington RNG project and AWEC has signed the protective order associated  
18 with that docket.<sup>430</sup> Moreover, NW Natural’s Direct Testimony in this proceeding clearly  
19 identified that it was seeking to recover these costs.<sup>431</sup>

---

<sup>427</sup> CUB/200, Gehrke/29.

<sup>428</sup> See *In re NW Nat. Gas Co., dba NW Nat., Application to Defer Cost of Service Associated with the Tyson RNG Project*, Docket UM 2145, Supplemental Application (Dec. 21, 2021).

<sup>429</sup> AWEC/100, Mullins/34

<sup>430</sup> Docket UM 2145, AWEC’s Signatures for General Protective Order (Mar. 9, 2021).

<sup>431</sup> NW Natural/1300, Walker/28; NW Natural/1314, Walker.

1           AWEC next claims that NW Natural’s proposed amortization of the deferral is not  
2 appropriate because it relies on a forecast cost-of-service during the period between the  
3 in-service date and the rate effective date, not actual data.<sup>432</sup> However, the project’s cost  
4 of service, like all other revenue requirement components, are forecast based on a future  
5 Test Year. As explained in the Surrebuttal Testimony of Kyle Walker and Rob Wyman,  
6 the Company is willing to include actual results for amortization, similar to the approach  
7 agreed upon by the parties for the TSA Security Directive 2 cost of service deferral in the  
8 First Stipulation of this docket.<sup>433</sup> The Company is tracking the actual costs for the  
9 Lexington RNG project and can provide the actual costs through September 2022 in a  
10 compliance filing.<sup>434</sup> This treatment would allow the Company to amortize the actual costs  
11 starting on November 1, 2022.<sup>435</sup>

12           Even if a deferral were granted, AWEC argues that it could not be amortized until  
13 2023 because it would be subject to an earnings test and the Company’s 2022 earnings  
14 would not be available until May 2023.<sup>436</sup> However, as explained above, the deferral  
15 would be amortized through the RNG AAC and not necessarily subject to an earnings  
16 test per ORS 757.259(5).

17           Finally, CUB does not oppose the deferral of the costs between the Lexington RNG  
18 project’s in-service date and the rate effective date, even though it opposes such deferrals  
19 for future RNG projects. CUB states that NW Natural “could have forced a tariff

---

<sup>432</sup> AWEC/100, Mullins/34.

<sup>433</sup> NW Natural/3000, Walker-Wyman/11.

<sup>434</sup> NW Natural/3000, Walker-Wyman/11.

<sup>435</sup> NW Natural/3000, Walker-Wyman/11.

<sup>436</sup> AWEC/100, Mullins/34.

1 investigation and a decision on its mechanism [the RNG automatic adjustment  
2 clause].”<sup>437</sup> But, “[i]nstead, the Company has diligently worked with AWEC, Staff, and  
3 CUB, and has delayed the effective date of its ratemaking mechanism for RNG projects  
4 several times to accommodate feedback from the Oregon utility regulatory community.”<sup>438</sup>  
5 Therefore, the “use of a deferral appears appropriate in this instance.”<sup>439</sup> NW Natural  
6 appreciates CUB’s position on this issue and it provides additional support for the  
7 approval of the requested deferral and the amortization of the deferred amount.

8 **3. AWEC’s Proposed Disallowance of Distributions to BioCross, LLC is**  
9 **Without Merit.**

10 NW Natural developed the Lexington RNG project with BioCross, LLC, an RNG  
11 project developer.<sup>440</sup> BioCross, LLC put the initial project concept together, secured the  
12 initial relationship with Tyson, and conducted the initial evaluation of the gas potential and  
13 equipment costs, all before presenting the project to NW Natural.<sup>441</sup> As compensation for  
14 this work, BioCross LLC will be entitled to a share of the profits from the project—which  
15 is a typical deal structure for this type of venture.<sup>442</sup> The advantage of such a structure  
16 for NW Natural’s customers is that BioCross, LLC shares in the risks of the project, as  
17 well as its potential benefits.<sup>443</sup>

---

<sup>437</sup> CUB/200, Gehrke/26.

<sup>438</sup> CUB/200, Gehrke/26.

<sup>439</sup> CUB/200, Gehrke/27.

<sup>440</sup> NW Natural/1100, Chittum/16-18. For a complete description of how the Lexington RNG project is structured, see NW Natural/1100, Chittum/11-18.

<sup>441</sup> NW Natural/2100, Chittum/19.

<sup>442</sup> NW Natural/2100, Chittum/19.

<sup>443</sup> NW Natural/1100, Chittum/16-18.

1           AWEC argues that the Commission should not allow NW Natural to recover in  
2 rates a portion of the distributions that it will make to BioCross, LLC.<sup>444</sup> AWEC's  
3 argument, however, is not ripe. NW Natural is not seeking recovery of any distributions  
4 to BioCross, LLC in this proceeding. Rather, due to **[BEGIN HIGHLY CONFIDENTIAL]**  
5 **[REDACTED]** **[END HIGHLY CONFIDENTIAL]** at the Lexington RNG project,  
6 NW Natural projects making **[BEGIN HIGHLY CONFIDENTIAL]** **[REDACTED]** **[END**  
7 **HIGHLY CONFIDENTIAL]** to BioCross, LLC in the initial year of the project and is not  
8 seeking recovery of any such costs in this proceeding.

9           That said, in subsequent years, NW Natural will likely make distributions to  
10 BioCross, LLC and will seek recovery of these costs through the RNG automatic  
11 adjustment clause, if approved by the Commission. NW Natural believes any such  
12 distributions to BioCross, LLC would be prudent because, as explained above, BioCross,  
13 LLC provided the Company with a valuable service in locating and performing the initial  
14 development of the project, and but for BioCross LLC's efforts the Company would not  
15 have had the opportunity to invest in the project. On this point, it should be emphasized  
16 that the Company's analysis demonstrated that the Lexington RNG project was the least  
17 cost/least risk project it could pursue at that time and, therefore, was the best deal for  
18 customers.<sup>445</sup> Without the potential of receiving distributions from the project for its work,  
19 BioCross, LLC would not have agreed to develop the project with NW Natural.<sup>446</sup>

---

<sup>444</sup> AWEC/200, Mullins/12-14.

<sup>445</sup> NW Natural/2900, Chittum/11-12.

<sup>446</sup> NW Natural/2900, Chittum/11.

1           Moreover, contrary to AWEC’s argument that NW Natural “is being compensated  
 2 for the capital at risk in the project by earning its rate of return on 100% of the project  
 3 assets, even though it only owns a fraction of that amount,”<sup>447</sup> NW Natural is only  
 4 proposing to rate base the capital that it invested in the project.<sup>448</sup> ORS 757.396(3)  
 5 provides that NW Natural is entitled to its “cost of capital established by the commission  
 6 in the large natural gas utility’s most recent general rate case,” which is what the Company  
 7 is seeking in this proceeding. While NW Natural did invest all of the capital in the project  
 8 and BioCross, LLC contributed its “sweat equity” in conceiving of and further developing  
 9 the project, any distributions that BioCross, LLC subsequently receives are not  
 10 “preferential” as AWEC claims,<sup>449</sup> but rather reflects the amount of risk that BioCross,  
 11 LLC is assuming, which, as explained above, has resulted in it receiving **[BEGIN HIGHLY**  
 12 **CONFIDENTIAL]** ██████████ **[END HIGHLY CONFIDENTIAL]** in the project’s first  
 13 year.<sup>450</sup>

14           Finally, AWEC suggests that it would have been less expensive for NW Natural to  
 15 buy out BioCross, LLC’s interest in the Lexington RNG project, and own 100% of the  
 16 project.<sup>451</sup> This approach, however, would have shifted all the project’s risk to NW  
 17 Natural.<sup>452</sup> In other words, BioCross would have profited from the project up-front,  
 18 whether it was successful or not in the long run, and would have borne none of the risk.  
 19 Instead of pursuing that approach, NW Natural believed it was better to have BioCross,

---

<sup>447</sup> AWEC/200, Mullins/13.

<sup>448</sup> NW Natural/2900, Chittum/11-12.

<sup>449</sup> AWEC/200, Mullins/13-14.

<sup>450</sup> NW Natural/2900, Chittum/13-14.

<sup>451</sup> AWEC/200, Mullins/12.

<sup>452</sup> NW Natural/2100, Chittum/19; NW Natural/2900, Chittum/12.



1 LLC profit only to the extent that the project was successful and bear some of the risks of  
2 the project.

3 **4. AWEC’s Tax Concern Has Already been Addressed in Docket UI 451.**

4 In its Rebuttal Testimony, AWEC proposes that the Commission hold ratepayers  
5 “harmless for the tax consequences of the Lexington RNG project’s ownership structure  
6 in future proceedings.”<sup>453</sup> Although AWEC admits it is aware of no such harm and only  
7 speculates that it may be an issue in a subsequent proceeding,<sup>454</sup> it nonetheless seeks  
8 to re-open an issue that was already addressed several months ago in a docket  
9 concerning an affiliated interest agreement that NW Natural entered into related to the  
10 Lexington RNG project. In that proceeding, the Commission initially adopted the exact  
11 same condition that AWEC is seeking here: “Ratepayers will be held harmless to the  
12 extent that the partnership tax allocations result in a limitation of the amount of tax  
13 deductions or tax benefits that may be claimed with respect to Lexington Renewable  
14 Energy, LLC.”<sup>455</sup> NW Natural subsequently sought rehearing of this order and agreed to  
15 an all-party stipulation, which included AWEC, that revised this condition to read:

16 If partnership allocations of income tax losses from Lexington Renewable  
17 LLC to NW Natural RNG Holding Company LLC are limited/reduced on an  
18 annual basis compared to traditional utility ownership, NWN will notify  
19 interested parties in the annual affiliated interest report in Docket RG 8 and  
20 present a plan to address the matter. In future ratemaking proceedings  
21 parties will be free to propose adjustments holding ratepayers harmless as  
22 if the assets were under traditional utility ownership.<sup>456</sup>  
23

---

<sup>453</sup> AWEC/200, Mullins/15.

<sup>454</sup> *In re NW Nat., Request for Approval of an Affiliated Interest Agreement with Lexington Renewables, LLC*, Docket UI 451, Order No. 22-211 at 3 (June 7, 2022).

<sup>455</sup> Docket UI 451, Order No. 21-194, at 1 and App. A at 11 (June 8, 2021).

<sup>456</sup> Order No. 22-211 at 3.

1 NW Natural is disappointed that AWEC appears to be seeking to revert back to the  
2 original tax condition in the affiliated interest docket, even though AWEC agreed to  
3 change it as part of a Commission-approved settlement. The Commission should not  
4 condone this type of behavior. Instead, the Commission should reaffirm that the condition  
5 adopted by the Commission—and agreed to by AWEC—in the affiliated interest docket  
6 addresses this issue, and reject AWEC’s proposal in this docket.

7 **5. Costs Should be Allocated to all Non-Storage Customers.**

8 AWEC argues that ORS 757.390-398 does not permit the Commission to assign  
9 costs to transportation customers and that the original purpose of the Lexington RNG  
10 project was to meet ORS 757.396 volumetric sales targets.<sup>457</sup> While this was, in fact, the  
11 original purpose of the Lexington RNG project when NW Natural made the decision to  
12 pursue it in late 2020, the CPP was subsequently adopted a year later, which makes NW  
13 Natural the point of regulation for its transportation customers’ emissions. Therefore,  
14 these customers benefit from NW Natural’s acquisition of RNG to lower its emissions and  
15 should be allocated some of the costs of the project. Nothing in ORS 757.390-398  
16 prevents the Commission from assigning costs to those customer classes that benefit  
17 from the Company’s acquisition of RNG. Since CPP compliance is based on carbon  
18 dioxide emissions associated with therms of natural gas consumed, costs should be  
19 allocated on the same basis (i.e., equal cents per therm).<sup>458</sup>

---

<sup>457</sup> AWEC/200, Mullins/3.

<sup>458</sup> NW Natural/3000, Walker-Wyman/3.



1 rate case is not the appropriate forum in which to consider CUB's and the Coalition's LEA  
2 proposals; (4) approve NW Natural's proposed Schedule 198, allow the Company to defer  
3 the costs between the in-service date of a new qualified RNG investment and the rate  
4 effective date, do not subject the deferred amounts to an earnings test, and let NW Natural  
5 defer the difference between forecasted and actual RNG operating costs; and (5) adopt  
6 the Company's proposal to spread the revenue requirement associated with the  
7 Lexington RNG Project on an equal cents per therm basis to all customer classes (except  
8 storage), including customers with whom NW Natural has special contracts, and reject  
9 AWEC's proposal to consider the cost of the Lexington RNG Project in the context of the  
10 overall cost of service and rate spread.

Respectfully submitted this 10<sup>th</sup> day of August, 2022.



---

Lisa F. Rackner  
Jocelyn C. Pease  
McDowell Rackner Gibson PC  
419 SW 11th Avenue, Suite 400  
Portland, OR 97205  
Telephone: (503) 595-3922  
dockets@mrg-law.com

Attorneys for Northwest Natural Gas Company

BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON

**UG 435 / UG 411**

**NW NATURAL**

**Opening Brief**

***Attachment 1***

---

NW Natural's Schedule X

August 10, 2022

**NORTHWEST NATURAL GAS COMPANY**

P.U.C. Or. 25

Original Sheet X-1

---

**SCHEDULE X  
DISTRIBUTION FACILITIES EXTENSIONS  
FOR APPLICANT-REQUESTED SERVICES AND MAINS**

**AVAILABLE:**

In all territory served by the Company under the Tariff of which this Schedule is a part.

**APPLICABLE:**

The terms and provisions of this Schedule apply to the installation of Distribution Facilities required to provide utility service to a bona fide Applicant, or to a builder or developer ("Builder/Developer") of real property where gas-fired equipment is committed to be installed and used in a residential dwelling(s), commercial building(s), or industrial plant(s) that is located or to be constructed on such property. Except where specifically stated otherwise, the use of the term Applicant shall be construed to include a Builder/Developer. This Schedule does not apply to Company initiated system improvements or expansions of its Distribution System.

**GENERAL CONDITIONS OF SERVICE:**

The installation of Distribution Facilities under this Schedule will be completed as soon as reasonably possible following the receipt and approval of a service application. Requests for service to Non-Residential Applicants and to any new construction planned development will require sufficient advance notice to allow for design, permits, and any other special requirements necessary to provide the requested utility service.

The Company may accept requests for service received through an equipment installer or other third party on behalf of an Applicant provided that the Applicant information is included with the service request. Any Construction Contribution paid to the Company by an equipment installer or other third party on behalf of an Applicant will be considered paid by Applicant, and any subsequent refunds of such Construction Contribution shall go to the Applicant.

Prior to the installation of any Distribution Facilities, the Company may require that an Applicant sign a Service Agreement as described in the "SERVICE AGREEMENT" provision of this Schedule.

A request for utility service on a temporary basis is subject to the terms and conditions set forth in **Rule 22**.

During the period September 1 through January 31, Residential and Commercial Applicants may request a priority installation schedule, subject to the priority installation schedule charge set forth in **Schedule C**. When the Company agrees to a priority installation schedule, the Company will expedite the service installation date for completion within five (5) working days from the date that the application of service is approved by the Company. The Company may deny a request for a priority installation if the quality or timing of the installation of other Applicants or Customers would be adversely affected.

(continue to Sheet X-2)

Issued October 31, 2012  
NWN OPUC Advice No. 12-17

Effective with service on  
and after November 1, 2012

**NORTHWEST NATURAL GAS COMPANY**

P.U.C. Or. 25

Original Sheet X-2

---

**SCHEDULE X  
DISTRIBUTION FACILITIES EXTENSIONS  
FOR APPLICANT-REQUESTED SERVICES AND MAINS  
(continued)**

**GENERAL CONDITIONS OF SERVICE (continued):**

All Applicants must meet the credit criteria set forth in **Rule 2** before construction and activation of any Distribution Facilities, and Applicant must agree to take and pay for service in accordance with all applicable Schedules, General Rules and Regulations of this Tariff, and in accordance with the provisions and conditions of the Rate Schedule under which service will be provided by the Company.

Each Applicant is responsible for the installation and maintenance of all gas-fired appliances and House Line. All installations must conform with applicable laws, codes, and ordinances of all governmental authorities having jurisdiction. See **Rule 18** for additional information. Each Builder/Developer must also comply with the terms and conditions set forth in the "REQUIREMENTS FOR NEW CONSTRUCTION AND PLANNED DEVELOPMENTS" provision of this Schedule.

An Applicant must install and use the equipment associated with the Construction Allowance afforded to the Applicant within ninety (90) days from the date that the meter is installed at the site, or by such other date specifically agreed to by the Company. Failure to comply with this provision shall be cause for the Company to demand payment from the initial Applicant in the amount of the actual construction costs, less any Construction Contribution paid. If the actual equipment installed warrants a different Construction Allowance then the Construction Contribution will be recalculated. Any overpayment of \$75 or less will be credited to the Customer's gas utility account. A refund check will be issued for any overpayment in excess of \$75. If the recalculation results in a shortfall, the amount of the shortfall shall be immediately due and payable to the Company. Failure to pay such amount is cause for Disconnection of Service or for refusal of service under **Rule 1** and **Rule 11** of this Tariff.

**LOCATION OF FACILITIES:**

The Company reserves the right to designate the location of all Distribution Facilities required to serve an Applicant. In this designation, the Company will consider the distance along the shortest most practical, available and acceptable route that is clear of obstructions from the Main to the meter location.

All installations shall be made in accordance with **Rule 20** of this Tariff, and with the Company's Standard Practices and Procedures.

(continue to Sheet X-3)

Issued October 31, 2012  
NWN OPUC Advice No. 12-17

Effective with service on  
and after November 1, 2012

**NORTHWEST NATURAL GAS COMPANY**

P.U.C. Or. 25

First Revision of Sheet X-3

Cancels Original Sheet X-3

---

**SCHEDULE X  
DISTRIBUTION FACILITIES EXTENSIONS  
FOR APPLICANT-REQUESTED SERVICES AND MAINS  
(continued)**

**CONSTRUCTION COSTS:**

Construction costs include all costs associated with the extension of the Company's Distribution Facilities. All costs applicable to this Schedule will be reviewed annually and updated as needed.

Construction costs for Service Line installations are based upon the Company's historical system average costs, except the Company may use a site-specific cost estimate if extraordinary construction conditions exist at the site. For purposes of this provision, extraordinary construction conditions include, but are not necessarily limited to:

- a) Extreme rocky conditions along the main or Service Line route.
- b) The connection must be made from a high pressure main.
- c) The Service Line is more than 700 feet in length.
- d) The installation requires a railroad, bridge, or other non-standard crossing permit.

In all cases, Main Extension costs will be based upon a site-specific cost estimate.

Where there is more than one Applicant for an installation that includes a Main Extension, the costs will be distributed equally among each of the Applicants, or in such other manner determined by the Applicants.

**REQUIREMENTS FOR NEW CONSTRUCTION AND PLANNED DEVELOPMENT INSTALLATIONS:**

This provision is applicable to any new construction installation or planned development project where the installation of Class B (less than or equal to 60 psig) Main is required, and where there are no existing buildings, roads, or other hard surfaces along the construction route.

For purposes of this provision, planned developments include but are not limited to, residential single-family subdivisions, residential multi-family developments, mixed-use developments, commercial and industrial parks, and any other similar project.

Except as otherwise provided in this provision, the Applicant must provide an open utility pathway for all Main located within the permitted area, and must install conduit in the utility pathway for all Service Line installations within the permitted area. The pathway and conduit must be installed in accordance with all applicable Company procedures, standards, and practices. The Company's installation requirements and installation procedures are available on the Company's website.

The Company will provide:

- (a) Any necessary Main installations in existing public rights-of-way and outside of the permitted project area;
- (b) Conduit for crossings; and
- (c) If there are no other proposed utility crossings, tie-in installation for gas-only road crossings in existing public rights-of-way outside of the permitted area.

(continue to Sheet X-4)

Issued October 8, 2014  
NWN OPUC Advice No. 14-22

Effective with service on  
and after November 26, 2014



**NORTHWEST NATURAL GAS COMPANY**

P.U.C. Or. 25

First Revision of Sheet X-4

Cancels Original Sheet X-4

**SCHEDULE X  
DISTRIBUTION FACILITIES EXTENSIONS  
FOR APPLICANT-REQUESTED SERVICES AND MAINS**

(continued)

**REQUIREMENTS FOR NEW CONSTRUCTION AND PLANNED DEVELOPMENT  
INSTALLATIONS (continued):**

The following installation schedule guidelines will apply:

	<b>MAIN*</b>	<b>SERVICE(S)</b>
Applicant Notification to Company	<u>No less than 7 Business Days</u> prior to start of pathway excavation	On the date that the conduit is installed
Company Installs Pipe	<u>No more than 7 Business Days</u> after confirmation that pathway is ready	<u>No more than 7 Business Days</u> from the date of notice that the conduit is installed
Estimated time from Notice to Installation	<u>No less than 14 Business Days</u> from Notice to Company	<u>No more than 7 Business Days</u> from the date of notice that the conduit is installed

\* Within the permitted area

Exceptions may be accommodated where extenuating circumstances arise. In such event, the Company and the Applicant will develop a mutually acceptable modified installation schedule.

For Main installations, an Applicant must promptly notify the Company of any known delays in the scheduled installation date. If the Company does not receive notice of a construction delay prior to dispatching a crew to the site, the wasted trip fee specified in **Schedule C** will apply.

In the event the Company fails to meet a scheduled Main installation date through no fault of the Applicant, the Applicant is not obligated to hold the utility pathway open, and the Company will be responsible for all costs associated with re-opening the utility pathway or constructing a new utility pathway (whichever shall apply).

The Company will construct the utility pathway for an Applicant, at the Applicant's expense, under the following circumstances:

1. When the Company determines that an Applicant-provided pathway is not required.
2. When, prior to commencement of construction, the Applicant requests that the Company provide the pathway. All costs associated with construction of the pathway must be received by the Company prior to commencement of construction.
3. When, after commencement of construction, for whatever reason, the Applicant is unable to provide the pathway and Applicant requests that the Company perform the work.

The Company will charge an Applicant to construct the utility pathway under conditions 2 and 3 above. The costs associated with the Company's construction of the utility pathway under this provision are incremental and separate from any other construction costs applicable to the installation, and must be paid in full to the Company prior to construction.

(continue to Sheet X-5)

Issued October 8, 2014  
NWN OPUC Advice No. 14-22

Effective with service on  
and after November 26, 2014

**NORTHWEST NATURAL GAS COMPANY**

P.U.C. Or. 25

Original Sheet X-5

**SCHEDULE X**  
**DISTRIBUTION FACILITIES EXTENSIONS**  
**FOR APPLICANT-REQUESTED SERVICES AND MAINS**  
(continued)

**REQUIREMENTS FOR NEW CONSTRUCTION AND PLANNED DEVELOPMENT INSTALLATIONS**  
**(continued):**

The installation schedule for a Company provided utility pathway will be determined between the Company and the Applicant. If the Company fails to meet the agreed installation schedule, the Company will pay to the Applicant the service guarantee credit specified in **Schedule C**.

**CONSTRUCTION ALLOWANCE:**

The Construction Allowance is based upon the Customer classification. The customer classifications are:

- (1) Residential (Single-Family or Multi-Family Dwellings), and
- (2) Non-Residential (Commercial and Industrial) and Planned Developments.

An Applicant is subject to the conditions set forth in the "GENERAL CONDITIONS OF SERVICE" provision of this Schedule if the Applicant fails to install the equipment associated with the Construction Allowance afforded to the Applicant under this Schedule.

The Construction Allowances for each Customer classification follow:

Residential

The Construction Allowance per residential dwelling is based upon the gas-fired appliances to be installed, as set forth in the table below:

Category	Description	Notes	Construction Allowance (per Premise)
A	Primary Natural Gas space heating (does not apply to centralized space heating that serves multiple units)	1	\$2,875
B	Primary Natural Gas water heat (does not apply to centralized water heating that serves multiple units) Natural Gas heating fireplace for primary space heating Natural Gas wall heat for primary space heating	2	\$2,100
C	Range, Cook top, Clothes dryer	3	\$ 850
D	Gas barbecue, log lighter, gas log, tiki torch, Bunsen burner, pool, spa, or hot tub water heaters, standby space heating equipment including but not limited to natural gas back-up to electric heat pumps; non-primary space or water heat equipment; equipment installed in a detached garage, shop, or outbuilding	4	\$0

- [1] Alone or in combination with any additional Category A-D gas-fired appliances.
- [2] Alone or in combination with any additional Category B-D gas-fired appliances.
- [3] Alone or in combination with any additional Category C-D gas-fired appliances.
- [4] Alone or in combination with any additional Category D gas-fired appliances.

(continue to Sheet X-6)

Issued October 31, 2012  
NWN OPUC Advice No. 12-17

Effective with service on  
and after November 1, 2012

**NORTHWEST NATURAL GAS COMPANY**

P.U.C. Or. 25

Original Sheet X-6

---

**SCHEDULE X**  
**DISTRIBUTION FACILITIES EXTENSIONS**  
**FOR APPLICANT-REQUESTED SERVICES AND MAINS**  
(continued)

**CONSTRUCTION ALLOWANCE (continued):**

The Construction Allowances shown above will apply to individually metered multi-family units. When a multi-family installation includes centralized gas-fired space or water heating equipment, or where the use of gas-fired equipment will be in place for laundry facilities, swimming pools, spas, or common building spaces, then the Non-Residential Construction Allowance will apply. In certain circumstances, both the Residential and Non-Residential Construction Allowances may apply to a multi-family Applicant.

**Non-Residential and Planned Developments**

The Company will perform an investment analysis for each installation to determine the amount of any Construction Allowance. At a minimum, the Construction Allowance will equal 5.0 times the annual margin revenue that is estimated to be generated from the operation of natural gas-fired equipment to be installed at the service address.

The Company will estimate therm usage associated with the operation of gas-fired equipment based on structure characteristics, the type and frequency of use of the gas-fired equipment, and the nameplate rating of the gas-fired equipment to be installed.

**CONSTRUCTION CONTRIBUTION:**

If the Construction Allowance applicable to an Applicant is less than the construction cost, then a Construction Contribution will be required.

The Company will not schedule any installation until the required Construction Contribution is paid. Each Construction Contribution payment will be adjusted for the applicable tax amount then in effect. The tax amount may change from time to time without prior notice.

Where a site-specific cost estimate was used to determine an Applicant's Construction Contribution, actual construction costs for such installation will be reviewed by the Company as soon as all costs have been accounted for. If actual construction costs are less than the site-specific cost estimate, then a refund of the cost difference will be issued to the Applicant. Any such refund is subject to the terms and conditions set forth in **Rule 11** and **Rule 16**.

(continue to Sheet X-7)

Issued October 31, 2012  
NWN OPUC Advice No.12-17

Effective with service on  
and after November 1, 2012

**NORTHWEST NATURAL GAS COMPANY**

P.U.C. Or. 25

Original Sheet X-7

**SCHEDULE X**  
**DISTRIBUTION FACILITIES EXTENSIONS**  
**FOR APPLICANT-REQUESTED SERVICES AND MAINS**  
(continued)

**SERVICE AGREEMENTS:**

A Service Agreement may be required, at the sole discretion of the Company, in the following circumstances:

1. Whenever a Main Extension is required.
2. For service to Planned Developments.
3. When the cost of construction is greater than \$50,000.
4. When the Company's investment analysis requires a guarantee of margin revenue as a condition of the investment.

**REFUNDS OF CONSTRUCTION CONTRIBUTIONS:**

When the installation requires a Main Extension, any Construction Contribution paid may be subject to refund. A refund opportunity exists only when a new Service Line installation is added along the Main Extension within thirty-six (36) months from the date that the Main Extension was installed.

The Company will review Main Extension activity at the end of the thirty-six (36) month period to determine whether a refund of a Construction Contribution is due. The Company will perform a refund calculation prior to the end of the refund period upon specific request from the original contributor.

To determine the amount available for refund, the construction cost and the Construction Allowance will be updated. The construction cost will equal the actual construction cost of the original installation plus the cost of the subsequent connection. The Construction Allowance will equal the original Construction Allowance plus the Construction Allowance afforded the subsequent Applicant. If the resulting Construction Contribution is less than the Construction Contribution paid by the original contributor, then a refund equal to such difference will be issued to the original contributor. Example Calculation for a single original contributor:

Cost	Allowance	Contribution	Description
\$ 6,900			Cost of original Main Extension with 1 Service Line
	\$ 2,875		Less Original Construction Allowance
		\$ 4,025	Original Construction Contribution Paid
\$ 2,042			Add cost of new connection to Main Extension
\$ 8,942			Updated cost of Main Extension and 2 Service Lines
	\$ 5,750		Less Construction Allowance on 2 Service Lines
	\$ 3,192		Revised Construction Allowance (updated cost less updated Construction Allowance)
		\$ 833	Refund to Original Contributor (original contribution less updated Construction Allowance)

In no event will a refund exceed the amount of the original Construction Contribution.

(continue to Sheet X-8)

Issued October 31, 2012  
NWN OPUC Advice No. 12-17

Effective with service on  
and after November 1, 2012

---

**SCHEDULE X  
DISTRIBUTION FACILITIES EXTENSIONS  
FOR APPLICANT-REQUESTED SERVICES AND MAINS  
(continued)**

**REFUNDS OF CONSTRUCTION CONTRIBUTIONS (continued):**

All refunds are calculated on the Construction Contribution amount before the income tax effects are applied.

Any Construction Contribution amounts not refunded by the end of the 36-month period will be retained by the Company.

**SPECIAL CONDITIONS FOR INSTALLATIONS COMPLETED PRIOR TO NOVEMBER 1, 2012**

For Service Line installations completed on or before November 1, 2012, the terms and conditions for refunds of Construction Contributions under Schedule X of P.U.C. Or. 24 shall continue to apply until the end of the 3<sup>rd</sup> Year following the Service Line installation date.

**GENERAL TERMS:**

Service under this Schedule is governed by the terms of this Schedule, the General Rules and Regulations contained in this Tariff, any other schedules that by their terms or by the terms of this Schedule apply to service under this Schedule, and by all rules and regulations prescribed by regulatory authorities, as amended from time to time.

Issued October 31, 2012  
NWN OPUC Advice No. 12-17

Effective with service on  
and after November 1, 2012

**CERTIFICATE OF SERVICE**  
UG 435 / UG 411

I hereby certify that on June 6, 2022, I have served the unredacted, confidential and highly confidential versions of NW NATURAL'S OPENING BRIEF upon parties of record in docket UG 435 by electronic or FedEx mail.

FILING CENTER (C)(HC)  
PUBLIC UTILITY COMMISSION OF  
OREGON  
201 High Street SE, Ste. 100  
Salem, Oregon 97301  
puc.filingcenter@puc.oregon.gov

MATTHEW MULDOON (C)(HC)  
PUBLIC UTILITY COMMISSION  
OF OREGON  
201 High Street SE, Ste. 100  
Salem, Oregon 97301  
matt.muldoon@puc.oregon.gov

STEPHANIE ANDRUS (C)(HC)  
DEPARTMENT OF JUSTICE  
1162 Court St. NE  
Salem, Oregon 97301  
stephanie.andrus@doj.state.or.us

CHAD M. STOKES (C)(HC)  
CABLE HUSTON LLP  
1455 SW Broadway, Ste. 1500  
Portland, Oregon 97201  
cstokes@cablehuston.com

MICHAEL GOETZ (C)(HC)  
OREGON CITIZENS' UTILITY  
BOARD  
610 SW Broadway, Ste. 400  
Portland, Oregon 97205  
mike@oregoncub.org

WILLIAM GEHRKE (C)(HC)  
OREGON CITIZENS' UTILITY  
BOARD  
610 SW Broadway, Ste. 400  
Portland, Oregon 97205  
will@oregoncub.org

CARRA SAHLER (C)  
LEWIS & CLARK LAW SCHOOL  
10101 S. Terwilliger Blvd.  
Portland, Oregon 97219  
sahler@lclark.edu

JAIMINI PAREKH (C)  
EARTHJUSTICE  
810 Third Ave., Ste. 610  
Seattle, Washington 98104  
jparekh@earthjustice.org

KRISTEN BOYLES (C)  
EARTHJUSTICE  
810 Third Ave., Ste. 610  
Seattle, Washington 98104  
kboyles@earthjustice.org

ADAM HINZ (C)  
EARTHJUSTICE  
810 Third Ave., Ste. 610  
Seattle, Washington 98104  
ahinz@earthjustice.org

DANNY KERMODE (C)  
5553dkcpa@gmx.us

DIANE HENKELS (C)  
SMALL BUSINESS UTILITY  
ADVOCATES  
621 SW Morrison St., Ste. 1025  
Portland, Oregon 97205  
diane@utilityadvocates.org

DATED August 10, 2022, Portland, Oregon.

/s/ Alisha Till  
Alisha Till  
Paralegal