



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

July 20, 2022

VIA ELECTRONIC FILING

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 the Stipulating Parties' Reply Testimony to the Coalition's Objections to the First Stipulation. Confidential material in support of the filing will be provided to qualified parties under Protective Order No. 21-461 via encrypted zip file.

Please contact this office with any questions.

Sincerely,

Alisha Till
Paralegal

Attachment

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

DOCKETS NO. UG 435 and UG 411 (Consolidated)

Joint Reply Testimony to the Coalition's Objections to the First Stipulation

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

NW NATURAL-STAFF-CUB-AWEC-SBUA EXHIBIT 200

Joint Testimony of Zachary D. Kravitz, Brian Fjeldheim, William Gehrke, Bradley Mullins, and Danny Kermode

REDACTED

July 20, 2022

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1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Who is sponsoring this testimony?**

3 A. This testimony is sponsored jointly by Northwest Natural Gas Company d/b/a NW
4 Natural (“NW Natural” or the “Company”), Staff of the Public Utility Commission of
5 Oregon (“Staff”), the Oregon Citizens’ Utility Board (“CUB”), the Alliance of
6 Western Energy Consumers (“AWEC”), and the Small Business Utility Advocates
7 (“SBUA”), (collectively, the “Stipulating Parties”).

8 **Q. Are you the same Stipulating Parties that provided Joint Testimony in**
9 **Support of the Multi-Party Stipulation Regarding Revenue Requirement, Rate**
10 **Spread, and Certain Other Issues (“First Stipulation”)?**

11 A. Yes. We filed NW Natural-Staff-CUB-AWEC-SBUA EXHIBIT 100 in support of the
12 First Stipulation.

13 **Q. What is the purpose of this Joint Reply Testimony?**

14 A. The Coalition of Communities of Color, Climate Solutions, Verde, Columbia
15 Riverkeeper, Oregon Environmental Council, Community Energy Project, and
16 Sierra Club (collectively, the “Coalition”) did not join the First Stipulation. On June
17 30, 2022, the Coalition filed testimony objecting to certain elements of the First
18 Stipulation.¹ This Joint Reply Testimony responds to the Coalition’s objections to
19 the First Stipulation and further supports the reasonableness of the First
20 Stipulation.

21 **II. BACKGROUND**

22 **Q. Please describe the First Stipulation.**

¹ See Coalition’s Rebuttal and Cross-Answering Testimony (June 30, 2022).

1 A. Two stipulations have been filed in these consolidated dockets.² The First
2 Stipulation was entered into on May 31, 2022, by and among NW Natural, Staff,
3 CUB, AWEC, and SBUA. The Coalition was not a party to the First Stipulation.
4 The parties to the First Stipulation agreed to resolve all issues raised in these
5 consolidated cases except for certain issues explicitly excluded in Paragraph 14
6 of the First Stipulation.³ The agreed upon and settled issues among the Stipulating
7 Parties included the Company's revenue requirement, cost of capital, rate spread
8 and design, an attestation process for capital projects, implementation of
9 depreciation rates pending resolution of docket UM 2214,⁴ Horizon 1 depreciation,
10 Horizon 1 start-up cost deferral, amortization of the Company's TSA Security
11 Directive 2 deferral balance,⁵ removing the request to begin amortizing the deferral
12 of the Williams Pipeline Outage,⁶ an update to the billing determinants for the
13 Company's Tariff Rate Schedules 183 and 197, an update to the Company's Tariff
14 Rule 11, a cost study analysis of Tariff Rate Schedule 3 Non-Residential
15 (Commercial), and a workshop relating to the difference in fixed costs for
16 residential multi-family versus residential single-family dwellings, and, finally, the

² On December 17, 2021, NW Natural filed a request for a general rate increase (the "Initial Filing") to become effective on November 1, 2022 (the rate effective date). On January 25, 2022, Administrative Law Judge ("ALJ") Sarah Spruce issued a Procedural Conference Memorandum consolidating UG 411 (NW Natural Advice 20-19, Schedule 198 Renewable Natural Gas Recovery Mechanism) with UG 435.

³ First Stipulation at 11-12, ¶14 (May 31, 2022). The excluded items included Residential Customer Deposits (CUB/100), Line Extension Allowance (CUB/100), Decoupling (Staff/1300), RNG Automatic Adjustment Clause (NWN/1500; AWEC/100; CUB/200), Cost Recovery and Rate Spread of the Lexington RNG Project and Deferral (NWN/1100; CUB/200; Staff/1700; AWEC/100), and COVID-19 Deferral Amortization and Rate Spread (Staff/1500; CUB/200).

⁴ *In re NW Natural Gas Company d/b/a NW Natural Updated Depreciation Study*, Docket UM 2214.

⁵ *In re NW Natural Gas Company d/b/a NW Natural Application for Approval of Deferred Accounting for TSA Security Directive 2 Compliance Expenses*, Docket UM 2192.

⁶ *In re NW Natural Gas Company d/b/a NW Natural Application to Defer Costs Associated with Restoration of Service Due to Damage to Williams Pipeline District Regulator Station*, Docket UM 2139.

1 related tariff updates for these agreed upon items.⁷ The Stipulating Parties filed
2 Joint Testimony in Support of the First Stipulation on June 8, 2022.

3 **Q. Have certain parties also entered into a Second Stipulation in this**
4 **proceeding?**

5 A. Yes, on June 29, 2022, NW Natural, Staff, CUB, AWEC, and the Coalition entered
6 into a Multi-Party Second Partial Stipulation regarding decoupling, residential
7 customer deposits, the Oregon Low Income Energy Efficiency Program (“OLIEE”),
8 and the Company’s COVID-19 deferral costs (“Second Stipulation”). SBUA was
9 not a party to the Second Stipulation. The Coalition’s objections are directed to
10 the First Stipulation, however, so the Second Stipulation is not further discussed
11 in this Joint REPLY TESTIMONY.

12 **III. RESPONSE TO THE COALITION’S OBJECTIONS TO THE FIRST**
13 **STIPULATION**

14 **Q. Please summarize the Coalition’s objections to the First Stipulation, as you**
15 **understand them.**

16 A. The Coalition objects to three provisions of the First Stipulation. First, the Coalition
17 objects to Paragraph 1(I) – Advertising Expense, arguing that NW Natural’s
18 advertising campaigns regarding Cooking with Gas, renewable natural gas
19 (“RNG”) investments, and indoor air quality, and the expenses NW Natural
20 incurred for safety-related reading booklets for children, are not recoverable from
21 customers as either Category A or Category B advertising expenses.⁸
22 Additionally, the Coalition also expresses concerns about the Company not

⁷ See First Stipulation at 3-11.

⁸ Coalition/900, Ryan/2.

1 charging any expenses to Category D (political) advertising.⁹ In all, the Coalition
2 recommends that the Commission make an adjustment of \$1,183,512 from the
3 Company's Category A and B advertising expense—or, in other words, that the
4 Commission reduce the advertising expense by \$183,512 in addition to the \$1
5 million expense reduction agreed to in the First Stipulation.¹⁰

6 Second, the Coalition objects to Paragraph 1(m) – Customer Account and
7 Sales Expense. The Coalition asks the Commission to disallow an additional
8 \$482,882 in promotional concession advertising costs.¹¹ This disallowance would
9 be incremental to the \$292,000 reduction to expense already agreed to by the
10 Stipulating Parties in the First Stipulation and would result in a total reduction to
11 the Company's Customer Account and Sales Expense of \$774,882.¹² The
12 Coalition also asks the Commission to open a new docket to investigate potential
13 modification of the Energy Trust of Oregon (“ETO”) fuel-switching policy and to
14 align the ETO incentives and programs with Oregon's climate laws.¹³

15 Third, the Coalition objects to Paragraph 1(n) – Salary, Wages, Stock
16 Expense, Incentives, and Medical Benefits, because the First Stipulation's \$5.25
17 million¹⁴ adjustment to revenue requirement for this category does not explicitly
18 include a deduction for staff time spent on political engagement with cities and

⁹ Coalition/900, Ryan/2-3.

¹⁰ Coalition/900, Ryan/33.

¹¹ Coalition/900, Ryan/33.

¹² Coalition/900, Ryan/33.

¹³ Coalition/900, Ryan/27-29.

¹⁴ 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.

1 counties.¹⁵ The Coalition argues that NW Natural's political activities are not
2 recoverable from customers, and recommends that the Commission disallow all
3 costs associated with NW Natural's Community Affairs and Government Affairs
4 programs.¹⁶ The Coalition's proposed adjustment is a negative adjustment of
5 **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**, in addition to the
6 \$5.25 million already captured in Paragraph 1(n) of the First Stipulation.¹⁷

7 **Q. At a high level, how do the Stipulating Parties respond to the Coalition's**
8 **objections?**

9 A. The Stipulating Parties disagree with the Coalition's challenges to the First
10 Stipulation and ask the Commission to reject the Coalition's request for further
11 expense (and, thus, revenue requirement) reductions because the First
12 Stipulation, if adopted, will result in rates that are fair, just, and reasonable, and is
13 therefore in the public interest. While the Stipulating Parties did not necessarily
14 agree upon all the methodologies used to determine each adjustment included in
15 the First Stipulation, the Stipulating Parties agreed that, collectively, all the agreed-
16 upon adjustments represent a reasonable settlement of the issues in the First
17 Stipulation. In sum, and as explained below, each adjustment to NW Natural's
18 request for a general rate increase within the First Stipulation is supported by
19 substantial evidence in the record, is not contrary to Commission policy, and
20 should therefore be approved as a reasonable settlement of the issues addressed
21 therein.

¹⁵ Coalition/900, Ryan/34.

¹⁶ Coalition/900, Ryan/42.

¹⁷ Coalition/900, Ryan/43 (citing First Stipulation at 5).

1 **a) Paragraph 1(I) – Advertising Expense**

2 **Q. Please describe the expense at issue.**

3 A. Category A advertising expense is for “[e]nergy efficiency or conservation
4 advertising expenses that do not relate to a Commission-approved program, utility
5 service advertising expenses, and utility information advertising expenses[.]”¹⁸
6 Advertising expense in this category is presumed to be just and reasonable for
7 ratemaking purposes up to an amount equal to 0.125 percent of NW Natural’s
8 gross operating revenues.¹⁹ Category B advertising expense is for legally
9 mandated advertising expenses and is presumed to be just and reasonable for
10 ratemaking purposes.²⁰ Category C advertising expense is institutional and
11 promotional advertising expense.²¹ The Company bears the burden of establishing
12 that any Category C expense is just and reasonable for ratemaking purposes.²²
13 Category D advertising expense is for political and nonutility advertising and
14 Category E advertising expense is for conservation or energy efficiency advertising
15 that relates to a Commission-approved program.²³ Category D expense is
16 presumed to be not just and reasonable for ratemaking purposes and Category E
17 expense may be capitalized.²⁴

18 **Q. Please describe the Stipulating Parties’ opening positions regarding**
19 **advertising expense.**

¹⁸ OAR 860-026-0022(2)(a).

¹⁹ OAR 860-026-0022(3)(a).

²⁰ OAR 860-026-0022(2)(b) and (3)(b).

²¹ OAR 860-026-0022(2)(c).

²² OAR 860-026-0022(3)(c).

²³ OAR 860-026-0022(2)(d) and (e).

²⁴ OAR 860-026-0022(3)(d) and (e).

1 A. In its Initial Filing, NW Natural included \$1,847,073 for Category A advertising
2 expense and \$1,080,180 for Category B advertising expense and a total of
3 \$2,900,950 in the Test Year.²⁵ NW Natural budgeted \$600,000 for Category C
4 advertising expense in the Test Year, but did not include these expenses in its rate
5 request.²⁶ NW Natural does not seek recovery for any Category D or E expense
6 in this case.²⁷

7 In Opening Testimony, Staff proposed a disallowance of \$190,320 to
8 NW Natural's Category A advertising expense to remove costs of two television
9 advertisements for NW Natural's Renewable Natural Gas program that Staff
10 believed were properly classified as Category C promotional advertising.²⁸ Staff
11 also proposed to reduce NW Natural's Category A advertising expense by
12 \$827,159 to reduce the Test Year expense down to the amount presumed just and
13 reasonable under OAR 860-026-0022(3), which Staff calculated to be
14 \$1,019,914.²⁹ Rather than making the adjustments incrementally, Staff subsumed
15 the \$190,320 adjustment for what it believed to be misclassified expense into the
16 larger adjustment of \$827,159.³⁰

17 Staff also proposed a disallowance to NW Natural's Category B advertising
18 expense.³¹ Staff noted that all expense in this category is presumed to be just and
19 reasonable for ratemaking purposes.³² However, Staff recommended a

²⁵ Staff/1000, Jent/8; NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermode/21 (citing NW/Natural/2100, Davilla/48).

²⁶ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermode/21.

²⁷ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermode/21.

²⁸ Staff/1000, Jent/11.

²⁹ Staff/1000, Jent/11.

³⁰ Staff/1000, Jent/11-12.

³¹ Staff/1000, Jent/12.

³² Staff/1000, Jent/12.

1 disallowance of \$172,904 disallowance for Category B advertising expense based
2 on its finding that NW Natural had not justified the increase in spending in this
3 category as compared to previous years.³³ Putting Staff's two proposed
4 adjustments together resulted in an overall downward adjustment to advertising
5 expenses of \$1,000,063.³⁴

6 For its part, CUB also recommended a downward adjustment to limit NW
7 Natural's Category A advertising expenses to the amount presumed reasonable
8 by rule.³⁵ However, CUB calculated a different amount than Staff for purposes of
9 this adjustment and proposed an adjustment of \$1,108,000.³⁶

10 **Q. Please describe the Stipulating Parties' agreement regarding advertising**
11 **expense in the First Stipulation.**

12 A. As a result of their settlement discussions, the Stipulating Parties agreed to a
13 reduction to advertising expense of \$1.0 million, which results in a reduction to
14 revenue requirement of \$1.029 million.³⁷

15 **Q. On what grounds does the Coalition object to the Stipulating Parties'**
16 **resolution of NW Natural's Category A and B advertising expense in the First**
17 **Stipulation?**

18 A. The Coalition argues that the proposed reduction to NW Natural's advertising
19 expenses agreed to in the First Stipulation is too low because it does not fully
20 account for the costs that the Coalition argues are not recoverable as either

³³ Staff/1000, Jent/13.

³⁴ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermode/22.

³⁵ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermode/22.

³⁶ CUB/100, Jenks/21.

³⁷ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermode/22.

1 Category A or Category B advertising expenses.³⁸ The Coalition proposes
2 disallowances to reflect the Coalition’s position that expenses related to “Cooking
3 with Gas,” RNG investments, and indoor air quality advertisements do not
4 constitute Category A advertising and should be removed from the Company’s
5 Category A advertising budget,³⁹ and that costs associated with the Company’s
6 safety-related booklets should similarly be removed from its Category B advertising
7 budget.⁴⁰ Additionally, the Coalition seeks to increase its recommended
8 disallowance for advertising expense by asking the Commission to disallow 61
9 percent of the total salary cost (\$390,286) from NW Natural’s advertising budget
10 to reflect the Coalition’s estimate of salary time spent on RNG advertising.⁴¹ In
11 sum, the Coalition proposes increasing the stipulated reduction to advertising
12 expense from \$1.0 million—as agreed upon by the Stipulating Parties—to
13 \$1,183,512, an incremental reduction of \$183,512.⁴²

14 **Q. How do the Stipulating Parties respond to the Coalition’s proposed**
15 **adjustment to Paragraph 1(I) of the First Stipulation?**

16 A. The Stipulating Parties recommend that the Commission view the agreements in
17 the First Stipulation as an integrated settlement and reject the Coalition’s proposed
18 adjustment to Paragraph 1(I). The Stipulating Parties believe that when viewed in
19 their totality—including the \$1.0 million expense adjustment in Paragraph 1(I)—the
20 compromises contained in the First Stipulation are in the public interest and will

³⁸ Coalition/900, Ryan/2.
³⁹ Coalition/900, Ryan/31.
⁴⁰ Coalition/900, Ryan/33.
⁴¹ Coalition/900, Ryan/32.
⁴² Coalition/900, Ryan/33.

1 result in just and reasonable rates.

2 **Q. Please explain your understanding of the Coalition's testimony regarding**
3 **NW Natural's Category D (political) advertising.**

4 A. The Coalition acknowledges that NW Natural is not seeking recovery for Category
5 D (political) advertising expense,⁴³ but argues that the Company nonetheless
6 should have declared and budgeted certain advertisements as Category D
7 advertising expense.⁴⁴

8 **Q. How do the Stipulating Parties respond to the Coalition's testimony**
9 **regarding political advertising?**

10 A. The Stipulating Parties agree that the First Stipulation addresses all the Stipulating
11 Parties' concerns regarding NW Natural's advertising expense and that no other
12 modifications are required related to this provision of the First Stipulation.

13 **Q. Please explain why, taking into account the Coalition's objections, the**
14 **Stipulating Parties' resolution of NW Natural's advertising expense is**
15 **nonetheless reasonable.**

16 A. CUB and Staff expressed similar concerns about certain advertising expenses for
17 which the Company sought recovery as Category A or Category B advertising
18 expenses.⁴⁵ The Stipulating Parties discussed these concerns in settlement and
19 ultimately agreed in the First Stipulation to reduce the amount included in rates for
20 Category A down to the amount presumed reasonable under administrative rule
21 and to remove some Test Year expense for Category B advertising.⁴⁶ The

⁴³ Coalition/900, Ryan/29.

⁴⁴ Coalition/900, Ryan/30.

⁴⁵ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/22.

⁴⁶ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/23.

1 Stipulating Parties' agreed-upon reduction of \$1.0 million to NW Natural's
2 advertising expense reflects a reasonable resolution of the Stipulating Parties'
3 concerns while still allowing the Company to recover a reasonable advertising
4 budget. The Stipulating Parties agree that this reduction adequately addresses
5 concerns raised about the Company's level of Category A and Category B
6 advertising expenses while also enabling resolution of other key issues
7 encompassed in the First Stipulation. The Stipulating Parties do not support the
8 Commission rejecting the First Stipulation for the purpose of increasing this
9 disallowance by an additional \$183,512.⁴⁷

10 ***b) Paragraph 1(m) – Customer Account and Sales Expense***

11 **Q. Please describe the Stipulating Parties' agreement regarding customer**
12 **account and sales expense in the First Stipulation.**

13 A. As a result of their settlement discussions, the Stipulating Parties agreed to reduce
14 the Company's customer account and sales expense by \$292 thousand.⁴⁸ In its
15 Initial Filing, NW Natural included total Oregon-allocated Test Year expenses of
16 approximately \$28.476 million, including \$2.8 million for customer assistance
17 expense (FERC Account 908) and \$2.1 million for demonstration and selling
18 expense (FERC Account 912).⁴⁹ Staff proposed removing a total of \$548,841 in
19 the Test Year from NW Natural's customer account and sales expense related to
20 building and industry events, corporate identity, dealer relations, and professional

⁴⁷ Additionally, NW Natural is providing separate testimony addressing the Coalition's adjustments and includes an alternative calculation demonstrating that the Coalition's proposed reductions total to less than the agreed-upon reduction of \$1.0 million. See NW Natural/2700, Beck.

⁴⁸ First Stipulation at 5.

⁴⁹ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermod/23.

1 services.⁵⁰ The Stipulating Parties maintained different views regarding the
2 amount of customer account and sales expense that NW Natural should include in
3 its rates, but agreed that the \$292 thousand reduction to expense reflected a
4 compromise that contributed to a fair and reasonable resolution of the issues in
5 this case.⁵¹

6 **Q. On what grounds does the Coalition object to the Stipulating Parties’**
7 **resolution of NW Natural’s customer account and sales expense?**

8 A. The Coalition recommends an additional reduction of \$482,882 for NW Natural’s
9 customer account and sales expense to reflect costs related to advertising that
10 referenced shareholder incentives for gas appliances.⁵² The Coalition asserts that
11 NW Natural has admitted that these costs must be categorized as Category C
12 advertising even though the Company booked the expenses to FERC Accounts
13 908 and 912, which are paid for by customers.⁵³ Additionally, the Coalition asks
14 the Commission to open a new docket to align ETO incentives and programs with
15 Oregon’s climate laws and Governor Brown’s Executive Order 20-04.⁵⁴

16 **Q. How do the Stipulating Parties respond to the Coalition’s challenges to**
17 **Paragraph 1(m) of the First Stipulation?**

18 A. The Stipulating Parties recommend that the Commission view the agreements in
19 the First Stipulation as an integrated settlement and reject the Coalition’s
20 challenges to Paragraph 1(m). The Stipulating Parties believe that when viewed

⁵⁰ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/23-24.

⁵¹ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/24.

⁵² Coalition/900, Ryan/33.

⁵³ Coalition/900, Ryan/33. The Coalition also refers to FERC Accounts 408 and 412, however, it appears that those references are in error and should instead be references to FERC Accounts 908 and 912.

⁵⁴ Coalition/900, Ryan/34.

1 in their totality—including the \$292 thousand expense adjustment contained in
2 Paragraph 1(m)—the compromises contained in the First Stipulation are in the
3 public interest and will result in just and reasonable rates. Additionally, the
4 Stipulating Parties understand that NW Natural is providing separate testimony
5 specifically responding to categorization of advertising expenses. Accordingly,
6 the Stipulating Parties recommend that the Commission reject the Coalition’s
7 proposals.

8 **Q. Please explain why, taking into account the Coalition’s objections, the**
9 **Stipulating Parties’ resolution of NW Natural’s customer account and sales**
10 **expense is nonetheless reasonable.**

11 A. As part of the give and take of settlement, the Stipulating Parties agreed to reduce
12 NW Natural’s customer account and sales expense by \$292 thousand. The
13 Stipulating Parties maintain that in the overall context of the First Stipulation, this
14 adjustment results in just and reasonable rates. In sum, the Stipulating Parties’
15 settled-upon reduction to NW Natural’s customer account and sales expense is
16 supported by substantial evidence in the record and should be approved as a
17 reasonable settlement of this category of expense.

18 **Q. How do the Stipulating Parties respond to the Coalition’s proposal to open a**
19 **new docket to investigate the alignment of the ETO incentives with Oregon’s**
20 **climate laws and Executive Order 20-04?**

21 A. The Stipulating Parties identified all issues that they intend to continue litigating in
22 this proceeding in Paragraph 14 of the First Stipulation and those issues do not
23 include the alignment of the ETO incentives with Oregon’s climate laws and

1 Executive Order 20-04.⁵⁵ Given the compromise of issues reached to enter into
2 this settlement, the Stipulating Parties do not support the Coalition's proposal.

3 **c) Paragraph 1(n) – Salary, Wages, Stock Expense, Incentives, and Medical**
4 **Benefits**

5 **Q. Please describe the Stipulating Parties' agreement regarding salary, wages,**
6 **stock expense, incentives, and medical benefits in the First Stipulation.**

7 A. The Stipulating Parties agreed to a reduction to NW Natural's revenue requirement
8 of \$5.25 million—an adjustment that included the removal of officer incentives for
9 the Test Year—and agreed that NW Natural's Test Year rate base would be further
10 reduced by \$4.5 million in recognition of all past capitalized financial performance-
11 based incentives.⁵⁶ For regulatory purposes, the Stipulating Parties agreed that
12 the Company's \$4.5 million rate base adjustment should be amortized over 15
13 years beginning on the rate effective date, which would result in a Test Year
14 reduction to revenue requirement of \$397 thousand.⁵⁷ If the First Stipulation is
15 approved, the rate base offset for capitalized incentives with a 15-year life will carry
16 over to subsequent rate cases and this additional adjustment will resolve all issues
17 regarding past capitalization of incentives.⁵⁸

18 **Q. On what grounds does the Coalition object to the Stipulating Parties'**
19 **resolution of NW Natural's salary, wages, stock expense, incentives, and**
20 **medical benefits?**

21 A. The Coalition argues that the reduction to NW Natural's salary, wages, stock

⁵⁵ First Stipulation at 11-12.

⁵⁶ First Stipulation at 5.

⁵⁷ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/27.

⁵⁸ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/27.

1 expense, incentives, and medical benefits is insufficient because it does not
2 include a reduction for the time the Company's staff spent on political activities.⁵⁹
3 The Coalition asserts that NW Natural engaged multiple Oregon cities and
4 counties seeking to influence policymaking.⁶⁰ According to the Coalition,
5 NW Natural may not recover these expenses under Commission precedent.⁶¹ The
6 Coalition does however acknowledge that NW Natural testified that it deducted
7 costs associated with lobbying activities,⁶² but still argues that NW Natural "has
8 not introduced evidence showing that it has deducted costs associated with its
9 efforts to influence the political activities of municipal governments,"⁶³ and
10 therefore recommends that the Commission disallow all costs associated with NW
11 Natural's Community Affairs and Government Affairs programs.⁶⁴ The Coalition's
12 recommendation would result in an additional reduction of **[BEGIN**
13 **CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]** in costs associated with NW
14 Natural's staff salary, beyond the \$5.25 million revenue requirement reduction
15 agreed to by the Stipulating Parties in the First Stipulation.⁶⁵

16 **Q. How do the Stipulating Parties respond to the Coalition's proposed**
17 **adjustment to Paragraph 1(n) of the First Stipulation?**

18 A. The Stipulating Parties recommend that the Commission view the agreements in
19 the First Stipulation as an integrated settlement and reject the Coalition's proposed

⁵⁹ Coalition/900, Ryan/34.

⁶⁰ Coalition/900, Ryan/36-39.

⁶¹ Coalition/900, Ryan/40.

⁶² Coalition/900, Ryan/41. See NW Natural/1700, Heiting-Bracken/78.

⁶³ Coalition/900, Ryan/42.

⁶⁴ Coalition/900, Ryan/42.

⁶⁵ Coalition/900, Ryan/43 (confidential).

1 adjustment to Paragraph 1(n). The Stipulating Parties believe that when viewed
2 in their totality—including the \$5.25 million revenue requirement adjustment
3 contained in Paragraph 1(n)—the compromises contained in the First Stipulation
4 are in the public interest and will result in just and reasonable rates.

5 **Q. Please explain why, taking into account the Coalition’s objections, the**
6 **Stipulating Parties’ resolution of NW Natural’s salary, wages, stock expense,**
7 **incentives, and medical benefits expense is nonetheless reasonable.**

8 A. The Stipulating Parties maintained different views regarding the appropriate
9 approach for determining the amount of salary, wages, stock expense, incentives,
10 and medical benefits that should be included in NW Natural’s rates, but were able,
11 through discussion and compromise, to reach a resolution that was fair and
12 reasonable for purposes of settlement.⁶⁶ Additionally, through settlement
13 discussions the Stipulating Parties agreed to a significant adjustment for past
14 capitalized incentives, which further aids in the resolution of the issues in this
15 proceeding and contributes to the overall fair resolution of issues in the First
16 Stipulation.⁶⁷ In contrast, the Coalition’s proposal to disallow the entirety of
17 NW Natural’s Community Affairs and Government Affairs expense—a significant
18 reduction beyond what the Stipulating Parties have already agreed to—was made
19 in isolation and should be rejected as excessive and unnecessary to achieve a fair
20 resolution of rate recovery of these expenses. In sum, the Stipulating Parties’
21 settled-upon reduction to NW Natural’s salary, wages, stock expense, incentives,

⁶⁶ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/27.

⁶⁷ NW Natural-Staff-CUB-AWEC-SBUA/100, Kravitz, Fjeldheim, Gehrke, Mullins, and Kermodé/27-28.

1 and medical benefits is supported by substantial evidence in the record and should
2 be approved as a reasonable settlement of this category of expense.

3 **Q. Is there additional information in the record addressing the cost allocations**
4 **for the Company's Community and Government Affairs expense?**

5 A. Yes. NW Natural provided Reply Testimony from Kimberly Heiting and Ryan
6 Bracken explaining that the Company has specific cost allocations for employees
7 that are engaged in lobbying and/or political activity.⁶⁸ These allocations (inclusive
8 of salary and overheads) are recorded to non-recoverable expense, and thus are
9 paid for by shareholders.⁶⁹ In response to a Coalition data request, NW Natural
10 demonstrated that all employees in the Community and Government Affairs
11 department had specific allocations of their time recorded to non-recoverable
12 expense.⁷⁰

13 **Q. How does this information further support the reasonableness of the First**
14 **Stipulation?**

15 A. While the Stipulating Parties had different views regarding the appropriate
16 approach for determining the amount of salary, wages, stock expense, incentives,
17 and medical benefits that should be included in NW Natural's rates, they were able,
18 through discussion and compromise, to reach a resolution that was fair and
19 reasonable for purposes of settlement. The information provided by NW Natural
20 in its Reply Testimony further supports the reasonableness of the compromises in
21 the First Stipulation.

⁶⁸ NW Natural/1700, Heiting-Bracken/78.

⁶⁹ NW Natural/1700, Heiting-Bracken/78.

⁷⁰ NW Natural/1700, Heiting-Bracken/78.

1 **IV. REASONABLENESS OF THE FIRST STIPULATION**

2 **Q. What is your recommendation to the Commission regarding the First**
3 **Stipulation?**

4 A. The Stipulating Parties recommend and request that the Commission approve the
5 First Stipulation in its entirety. The First Stipulation represents a comprehensive
6 resolution of the issues settled upon therein, including NW Natural's revenue
7 requirement, cost of capital, rate spread and design, an attestation process for
8 capital projects, implementation of depreciation rates pending resolution of docket
9 UM 2214, Horizon 1 depreciation, Horizon 1 start-up cost deferral, amortization of
10 the TSA Security Directive 2 deferral balance, removing the request to begin
11 amortizing the deferral of the Williams Pipeline Outage, an update to the billing
12 determinants for the Company's Tariff Rate Schedules 183 and 197, an update to
13 the Company's Tariff Rule 11, a cost study analysis of Tariff Rate Schedule 3 Non-
14 Residential (Commercial), and a workshop relating to the difference in fixed costs
15 for residential multi-family versus residential single-family dwellings, and, finally,
16 the related tariff updates for these agreed-upon items.⁷¹

17 On the other hand, the Coalition's selective modifications to certain
18 provisions of the First Stipulation jeopardizes the careful balancing of interests
19 reflected in the totality of the First Stipulation. After consideration of all the issues
20 raised by the Coalition in its objections, the Stipulating Parties agree that the First
21 Stipulation is consistent with the public interest and will result in rates that are fair,
22 just, and reasonable.

⁷¹ First Stipulation at 7-11.

1 **Q. Did parties to this proceeding have enough time to review, consider, and**
2 **evaluate the various elements of the First Stipulation?**

3 A. Yes. The parties to this case have been discussing the issues addressed in the
4 First Stipulation throughout the course of this proceeding and have had ample time
5 to evaluate and vet the elements of the First Stipulation through discovery, parties'
6 testimony, settlement negotiations, and informal conversations. The First
7 Stipulation resulted from the settlement discussions and compromises of the
8 Stipulating Parties and represents a reasonable resolution of the issues contained
9 therein.

10 **Q. Is the First Stipulation in the public interest?**

11 A. Yes. The Stipulating Parties believe that the First Stipulation, if approved, would
12 result in overall rates that are fair, just, and reasonable. Each Stipulating Party
13 agrees that the parties to the First Stipulation engaged in collaborative and
14 meaningful settlement discussions and made various concessions to reach a
15 settlement that reflects a fair result considering the parties' positions on these
16 issues.

17 **Q. Is the reasonableness of the First Stipulation supported by the record in this**
18 **case?**

19 A. Yes. In addition to the Joint Testimony offered by the Stipulating Parties in support
20 of the First Stipulation, the Stipulating Parties have addressed the Coalition's
21 objections through this Joint Reply Testimony in support of the First Stipulation.
22 The Stipulating Parties believe that the record in this case supports the First
23 Stipulation and request that the Commission approve the First Stipulation without

1 modification.

2 **Q. Does this conclude your Joint Reply Testimony?**

3 A. Yes.

CERTIFICATE OF SERVICE
UG 435 / UG 411

I hereby certify that on July 20, 2022, I have served the unredacted and confidential version of THE STIPULATING PARTIES' REPLY TESTIMONY TO THE COALITION'S OBJECTIONS TO THE FIRST STIPULATION upon parties of record in docket UG 435 by electronic (zipped, encrypted, password protected) 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

DIANE HENKELS (C)
SMALL BUSINESS UTILITY
ADVOCATES
621 SW Morrison St., Ste. 1025
Portland, Oregon 97205
diane@utilityadvocates.org

JOCELYN PEASE (C)(HC)
MCDOWELL RACKNER &
GIBSON PC
419 SW 11th Ave., Ste. 400
Portland, Oregon 97205
jocelyn@mrg-law.com

ERIC NELSEN (C)(HC)
NW NATURAL
250 SW Taylor Street
Portland, Oregon 97204
eric.nelsen@nwnatural.com

DANNY KERMODE (C)
5553dkcpa@gmx.us

DATED July 20, 2022, Portland, Oregon.

/s/ Alisha Till
Alisha Till
Paralegal