

February 28, 2022

**VIA ELECTRONIC FILING**

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

**Re: Docket UG 435 - Northwest Natural Gas Company's Application for a General Rate Revision**

Attention Filing Center:

Enclosed for filing are Errata Sheets for NW Natural's Initial Filing in this docket. These Errata Sheets are intended to correct an error pointed out by Commission Staff, which impacted NW Natural's calculated revenue requirement. Specifically, Staff pointed out to NW Natural that the Company had mistakenly excluded two FERC accounts from rate base: FERC 396 (Power Operated Equipment) and FERC 392 (Transportation Equipment). Correction of this error results in an incremental increase to rate base of \$51.7 million, which corresponds to an incremental increase to revenue requirement of \$4.6 million. With this correction, NW Natural's total requested increase to revenue requirement in this case would be \$78.0 million. NW Natural will provide to the parties updated workpapers reflecting these changes. NW Natural notes that while its revenue requirement in this case has been corrected, the Company understands that the base rates finally adopted by the Commission in this proceeding will not exceed the revenue requirement amount reflected in its initial filing.

The following specific changes have been made:

1. NW Natural/100, Anderson-Kravitz/Page 17, lines 3 and 5 - Update to revenue requirement
2. NW Natural/1300, Walker/Page 7, line 15 - Update to revenue requirement
3. NW Natural/1300, Walker/Page 8, line 14 - Increase in net plant from UG 388
4. NW Natural/1300, Walker/Page 16, line 21 - Property tax weighted average rate
5. NW Natural/1300, Walker/Page 28, line 5 - Update to revenue requirement
6. Exhibit 1301 – Comparison of Test Year to prior case
7. Exhibit 1302 – Increase in revenue requirement

8. Exhibit 1308 – Tax provision
9. Exhibit 1311 – Forecast of other taxes
10. Exhibit 1312 – Rate base and depreciation expense
11. Exhibit 1313 - State allocation factors

On a separate matter, in response to a request by Staff, NW Natural confirms that, consistent with its testimony and exhibits filed in this case, any increase to rates associated with the automatic adjustment clause requested by NW Natural to recover the costs of the Lexington Renewable Natural Gas project are not included in the initial \$73.5 million revenue requirement calculated by the Company, but rather will be recovered through a separate tariff, the amount of which NW Natural has proposed to update on an annual basis.

Please contact this office with any questions.



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Attorney for Northwest Natural Gas Company

1           **III.    NW NATURAL'S APPLICATION FOR GENERAL RATE REVISION**

2   **Q.    Can you please summarize the Company's requested rate increase?**

3    A.    NW Natural is seeking to increase revenues from base rates by ~~\$73.5~~78.0  
4           million. The rate increase requested in our application would result in  
5           approximately a ~~9.9~~ 10.56 percent increase to revenues collected from  
6           customers' base rates. The request is based on a capital structure of 50 percent  
7           common equity and 50 percent long-term debt, a requested 9.5 percent return on  
8           equity ("ROE"), resulting in an overall rate of return ("ROR") on rate base of  
9           6.886 percent, which is lower than our current Commission-approved ROR.

10 **Q.    Can you please comment on the considerations NW Natural undertook**  
11 **before filing this general rate revision?**

12 A.    We recognize that this is a difficult year to request an increase to rates. At its core,  
13 this rate case is about recovering the costs of our long-planned investments to  
14 continue to support our utility service to our customers. We understand that natural  
15 gas plays an essential role in our customers' lives, and we do not take lightly the  
16 prospect of increasing our customers' rates.

17           We determined, however, that NW Natural would need to file this application  
18 with the Commission seeking to revise its rates to recognize an increased revenue  
19 requirement related to its provision of utility service. Without the requested  
20 increase in base rates, NW Natural's gas distribution utility would expect the overall  
21 ROR to be 3.89 percent, with a corresponding ROE of 3.50 percent, well below the  
22 proposed ROR and ROE in this case of 6.886 percent and 9.5 percent,  
23 respectively. The Company, therefore, needs to increase its rates in order to

1 **Q. Why did NW Natural choose the period of November 1, 2022 to October 31,**  
2 **2023 as the Test Year in this case?**

3 A. The Company chose the 12-month period from November 1, 2022 to October 31,  
4 2023 because it best reflects the conditions expected when new rates from this  
5 rate case will be in effect. Given a filing date of December 2021 for the rate case,  
6 the normal timeline for the rate case process would mean that rates would be  
7 expected to be effective by November 1, 2022. This matches the Test Year used  
8 to calculate the revenue requirement in this case, and also coincides with the  
9 effective date of the annual PGA rate change, which minimizes the frequency of  
10 rate changes for customers.

11 **III. TEST YEAR REVENUE REQUIREMENT**

12 **Q. What is the Test Year revenue requirement needed to achieve the rate of**  
13 **return proposed in this case?**

14 A. To achieve the proposed rate of return of 6.886 percent in the Test Year, a revenue  
15 requirement increase of ~~\$73.5~~ 78.0 million, or ~~9.9~~ 10.56 percent, is needed over  
16 the revenues expected for the Test Year at present rates.

17 **Q. What would NW Natural's rate of return on equity be in the Test Year absent**  
18 **the requested rate increase?**

19 A. At current rate levels, the Company's ROE would be 3.50 percent. This is  
20 significantly below the 9.5 percent ROE proposed in this case.

1 **Q. Please describe the changes to revenue requirement elements since the last**  
2 **rate case that combine to cause NW Natural to under-earn at current rate**  
3 **levels in the Test Year.**

4 A. NW Natural/1301, Walker shows a side-by-side comparison of the results of  
5 operations from UG 388, the Company's last case in 2020<sup>3</sup> and the Test Year  
6 results from this rate case. Of particular note in this detailed comparison are four  
7 specific areas:

8 1) Line 6 shows a growth in margins (revenues net of cost of gas) of  
9 \$9.2 million during the period;

10 2) Line 9 shows total operating and maintenance expenses increasing  
11 by \$24.7 million;

12 3) Line 14 shows an increase in depreciation expense of \$21.8 million;  
13 and

14 4) Line 19 shows an increase in net plant of ~~\$288.4~~ 339.7 million.

15 In summary, NW Natural has generated revenue growth over the period, but that  
16 growth has been insufficient to offset costs for O&M and investments in rate base.

17 **IV. RESULTS OF OPERATIONS**

18 **Q. Please explain how NW Natural calculated the Test Year revenue**  
19 **requirement.**

20 A. The Company began with actual and forecasted results from the Base Year. We  
21 made normalizing and known and measurable changes to Base Year revenues,

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<sup>3</sup> UG 388 was completed, and rates became effective November 1, 2020.

1 105. The Plant benefits continue to be provided to customers subject to the timing  
2 limitations of the average rate assumption method (ARAM) from Order No. 20-364.  
3 The Gas Reserves benefits continue to be provided to customers over a shorter  
4 amortization period established in Order No. 20-364 on a temporary adjustment  
5 schedule.

6 **Q. Are the continuing regulatory benefits of Plant EDIT included in Test Year**  
7 **income tax expense the same annual dollar amounts documented in Order**  
8 **No. 20-364?**

9 A. Yes. The annual Plant EDIT amortization dollar amounts included in the Test Year  
10 income tax expense have remained the same as those documented in Order No.  
11 20-364 providing the same annual benefit to customers.

12 **F. Taxes Other Than Income Taxes**

13 **Q. Please explain the adjustment to Property Taxes.**

14 A. The adjustment to property taxes is included on line 13 of NW Natural/1302,  
15 Walker. The supporting calculation is disclosed in NW Natural/1311, Walker. The  
16 Base Year property tax expense equals the Oregon property taxes paid (cash  
17 basis) in November of 2021, less estimated amounts capitalized or otherwise  
18 excluded. The determination of Test Year property tax expense is performed in  
19 two steps. First, a weighted average percentage rate of Oregon property tax  
20 expense (cash basis) relative to Oregon net plant is determined using the actual  
21 results for 2019, 2020 and 2021. This average rate (1.414 1.377 percent) is then  
22 applied to net plant for year-end 2022 and 2023 to provide forecasted property tax  
23 assessments for 2022 and 2023, respectively. The forecasted assessments for

1 **Q. How is the Company proposing to recover the costs of the Lexington RNG**  
2 **project described in NW Natural/1100, Chittum?**

3 A. The Company proposes to recover costs associated with the Lexington RNG  
4 project through a separate, stand-alone cost-of-service schedule, rather than  
5 including the project in rate base included in the ~~\$73.5~~ 78.0 million incremental  
6 revenue requirement. NW Natural is proposing a separate cost-of-service model  
7 for this project so that it can more easily adopt any specific conditions adopted in  
8 either NW Natural's Advice No. 20-19 (Schedule 198 – Renewable Natural Gas  
9 Recovery Mechanism), now docketed as UG 411, or NW Natural's Request for  
10 Approval of an Affiliated Interest Agreement with Lexington Renewables, LLC,  
11 docketed as UI 451. Both dockets are currently pending at the Commission. See  
12 NW Natural/1314, Walker for the anticipated cost of service for the RNG  
13 investments to be included in Schedule 198.<sup>10</sup>

14 **Q. Which customer classes does the Company propose will pay for the cost of**  
15 **service for this RNG project?**

16 A. The Company proposes that all customer classes will pay for the cost of service  
17 for this RNG project. The Company anticipates that the Oregon Department of  
18 Environmental Quality's Climate Protection Program ("CPP") will be implemented  
19 by the Test Year. Therefore, the Company believes all customers will benefit from  
20 RNG which will be utilized for compliance with the CPP.

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<sup>10</sup> Estimates may get updated as costs or benefits are better known closer to the rate effective date. NW Natural/1314, Walker is for illustrative purposes only. Interest will be added to the cost of service to account for the amortization period at the Modified Blended Treasury ("MBT") rate.

BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON

**UG 435**

**NW Natural**  
**Exhibit of Kyle T. Walker**

**TEST YEAR / REVENUE REQUIREMENTS**  
**EXHIBIT 1301**

**ERRATA**

February 28, 2022



NW Natural  
Oregon Jurisdictional Rate Case  
Test Year Twelve Months Ended October 31, 2023  
Base Year Twelve Months Ended December 31, 2021  
Comparison of Test Year to Prior Rate Case  
(\$000)

Line No.	UG 388 Order 20-364 & 20-369 (a)	Current Test Year at Present Rates (b)	Change from Last GRC (c)	
<b>Operating Revenues (net of Cost of Gas)</b>				
1	Sale of Gas (net of Cost of Gas)	\$416,676	\$426,239	\$9,563
2	Transportation	17,285	17,010	(276)
3	Decoupling	0	0	0
4	WARM	0	0	0
5	Miscellaneous Revenues	3,473	3,400	(73)
6	<b>Total Operating Revenues</b>	<b>437,434</b>	<b>446,649</b>	<b>9,215</b>
<b>Operating Revenue Deductions</b>				
7	Uncollectible Accrual for Gas Sales	650	712	62
8	Other Operating & Maintenance Expenses	174,596	199,204	24,608
9	<b>Total Operating &amp; Maintenance Expense</b>	<b>175,246</b>	<b>199,916</b>	<b>24,670</b>
10	Federal Income Tax	12,609	5,686	(6,923)
11	State Excise	10,239	7,050	(3,189)
12	Property Taxes	23,104	27,125	4,021
13	Other Taxes	25,825	27,704	1,879
14	Depreciation & Amortization	89,849	111,660	21,811
15	<b>Total Operating Revenue Deductions</b>	<b>336,871</b>	<b>379,140</b>	<b>42,269</b>
16	<b>Net Operating Revenues</b>	<b>\$100,563</b>	<b>\$67,508</b>	<b>(\$33,055)</b>
<b>Average Rate Base</b>				
17	Utility Plant in Service	3,124,361	3,633,272	508,911
18	Accumulated Depreciation	(1,333,393)	(1,502,582)	(169,189)
19	<b>Net Utility Plant</b>	<b>1,790,968</b>	<b>2,130,689</b>	<b>339,721</b>
20	Aid in Advance of Construction	(4,294)	(7,268)	(2,974)
21	Customer Deposits	(2,691)	(292)	2,399
22	Gas Inventory	29,758	38,198	8,440
23	Leasehold Improvements	18,919	22,307	3,388
24	Materials & Supplies	12,780	16,536	3,756
25	Accumulated Deferred Income Taxes	(409,996)	(419,208)	(9,212)
26	<b>Total Rate Base</b>	<b>\$1,435,444</b>	<b>\$1,780,963</b>	<b>\$345,518</b>

BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON

**UG 435**

**NW Natural**  
**Exhibit of Kyle T. Walker**

**TEST YEAR / REVENUE REQUIREMENTS**  
**EXHIBIT 1302**

**ERRATA**

February 28, 2022

NW Natural  
Oregon Jurisdictional Rate Case  
Test Year Twelve Months Ended October 31, 2023  
Base Year Twelve Months Ended December 31, 2021  
Increase in Revenue Requirement  
(\$000)

NWN/Exhibit 1302  
Walker/ Page 1

Line No.	Base Year at Present Rates (a)	Adjustments to Base Year (b)	Test Year at Present Rates (c)	Required Increase (d)	Proposed Total (e)
<b>Operating Revenues</b>					
1	\$691,764	\$30,250	\$722,015	\$78,031	\$800,045
2	16,953	56	17,010	0	17,010
3	(527)	527	0	0	0
4	6,165	(6,165)	0	0	0
5	3,648	(248)	3,400	0	3,400
6	718,004	24,420	742,424	78,031	820,455
	435,744				
<b>Operating Revenue Deductions</b>					
7	282,260	13,515	295,775	0	295,775
8	702	11	712	76	788
9	179,693	19,511	199,204	0	199,204
10	462,654	33,037	495,691	76	495,767
11	12,531	(6,845)	5,686	14,655	20,340
12	9,587	(2,538)	7,050	6,069	13,118
13	23,942	3,183	27,125	0	27,125
14	26,313	1,391	27,704	2,103	29,807
15	93,084	18,576	111,660	0	111,660
16	628,111	46,804	674,916	22,902	697,818
17	\$89,892	(\$22,384)	\$67,508	\$55,129	\$122,637
<b>Average Rate Base</b>					
18	3,182,569	450,702	3,633,272	0	3,633,272
19	(1,351,426)	(151,156)	(1,502,582)	0	(1,502,582)
20	1,831,143	299,546	2,130,689	0	2,130,689
21	(5,629)	(1,639)	(7,268)	0	(7,268)
22	(1,084)	792	(292)	0	(292)
23	41,722	(3,524)	38,198	0	38,198
24	22,980	(673)	22,307	0	22,307
25	14,170	2,366	16,536	0	16,536
26	8,462	(5,462)	3,000	0	3,000
27	(412,539)	(9,669)	(422,208)	0	(422,208)
28	\$1,499,226	\$281,736	\$1,780,963	\$0	\$1,780,963
29	5.996%		3.791%		6.886%
30	7.40%		3.31%		9.50%

BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON

**UG 435**

**NW Natural**  
**Exhibit of Kyle T. Walker**

**TEST YEAR / REVENUE REQUIREMENTS**  
**EXHIBIT 1308**

**ERRATA**

February 28, 2022

NW Natural  
Oregon Jurisdictional Rate Case  
Tax Provision  
Test Year Twelve Months Ended October 31, 2023  
Base Year Twelve Months Ended December 31, 2021  
(\$000)

Line No.	BASE YEAR		TEST YEAR		
	State Taxes	Federal Taxes	State Taxes	Federal Taxes	
	(a)	(b)	(c)	(d)	
1	Operating Revenues	\$718,004	\$718,004	\$742,424	\$742,424
2	Operating Revenue Deductions	462,654	462,654	495,691	495,691
3	Property & Other Taxes	50,254	50,254	54,829	54,829
4	Book Depreciation	93,084	93,084	111,660	111,660
5	Interest (Rate Base * Cost of Debt)	34,437	34,437	38,041	38,041
6	Remove Equity Flotation				
7	State Tax Deduction	0	9,587	0	7,050
8	Subtotal	77,574	67,986	42,202	35,153
9	Permanent Differences 1/	6,364	6,364	6,602	6,602
10	Taxable Income	83,938	74,350	48,804	41,754
11	Tax Rate	7.60%	21.00%	7.600%	21.000%
12	Tax Before Credits	6,379	15,614	3,709	8,768
13	Tax Credits & EDIT Amortization 2/	3,208	(3,082)	3,340	(3,083)
14	Total Tax	\$9,587	\$12,531	\$7,050	\$5,686

1/ Primarily amortization of regulatory flow-through items allocated using accumulated depreciation factor

2/ Oregon excess deferred income taxes (EDIT) amortization and Oregon allocated research credit

BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON

**UG 435**

**NW Natural**  
**Exhibit of Kyle T. Walker**

**TEST YEAR / REVENUE REQUIREMENTS**  
**EXHIBIT 1311**

**ERRATA**

February 28, 2022

## NW Natural

Oregon Jurisdictional Rate Case

Test Year Twelve Months Ended October 31, 2023

Base Year Twelve Months Ended December 31, 2021 (Actual and Estimate)

Forecast of Other Taxes

Line No.	Actual 2019 (b)	Actual 2020 (c)	Actual/Forecast 2021 (d)	Weighted Average (e)	Test Year Normalized (f)	Base Year Normalized (g)
<b>Property Taxes</b>						
1	Taxes Paid	20,188,326	22,717,488	25,165,699		<u>23,941,594</u>
2	Net Plant December 31 of prior year	1,532,144,612	1,621,592,806	1,789,796,007		
3	Effective Rate on Prior Year-End Net Plant	1.318%	1.401%	1.406%	1.377%	
4	Net Plant 12/31/21				1,895,161,629	
5	2022 Payment Forecast (line 4 * line 3e)				26,096,014	
6	Net Plant 12/31/22				2,119,248,275	
7	2023 Payment Forecast (line 6 * line 3e)				29,181,645	
8	Test Period Expense 1/				<u>27,124,558</u>	
<b>Other Taxes</b>						
9	Franchise				17,157,416	16,462,758
10	Payroll				6,574,731	5,987,165
11	Regulatory Fee				2,784,090	2,671,369
12	Department of Energy				926,041	888,548
13	Other				261,790	302,959
14	Other Taxes Excluding Property Taxes				<u>27,704,068</u>	<u>26,312,800</u>
15						
16	1/ eight twelfths is taken from year 2020 and four twelfths from 2021					

BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON

**UG 435**

**NW Natural**  
**Exhibit of Kyle T. Walker**

**TEST YEAR / REVENUE REQUIREMENTS**  
**EXHIBIT 1312**

**ERRATA**

February 28, 2022



NW Natural  
Oregon Jurisdictional Rate Case  
Rate Base & Depreciation Expense - Oregon and System  
Test Year Twelve Months Ended October 31, 2023  
Base Year Twelve Months Ended December 31, 2021 (Actual and Estimate)  
(\$000)

Line No.	Rate Base	Test Year		Base Year	
		Oregon (a)	System (b)	Oregon (c)	System (d)
1	Utility Plant in Service	3,633,272	4,145,275	3,182,569	3,616,556
2	Accumulated Depreciation	(1,502,582)	(1,687,723)	(1,351,426)	(1,515,258)
3	Net Utility Plant	2,130,689	2,457,552	1,831,143	2,101,297
4	Aid in Advance of Construction	(7,268)	(23,567)	(5,629)	(7,389)
5	Customer Deposits	(292)	(322)	(1,084)	(1,197)
6	Gas Inventory (Working and Cushion)	38,198	42,943	41,722	46,905
7	Leasehold Improvemets	22,307	25,089	22,980	25,847
8	Materials & Supplies	16,536	19,389	14,170	16,615
9	Accumulated Deferred Income Taxes - Depreciation	(417,254)	(459,014)	(405,562)	(446,423)
10	Accumulated Deferred Income Taxes - Other	(4,954)	(5,511)	(6,977)	(7,741)
11	EDIT Rate Base Adjustment	3,000	3,563	8,462	9,025
12	Total Rate Base	1,780,963	2,060,123	1,499,226	1,736,938

1/ Test Year Depreciation DTL per Proration Methodology

Line No.	Depreciation Expense	Test Year		Base Year	
		Oregon	System	Oregon	System
13	Intangible - Software	21,037	23,838	9,302	10,541
14	Transmission	4,718	4,868	3,797	3,846
15	Distribution	64,439	74,199	59,970	68,764
16	General	13,644	15,387	13,402	15,042
17	Storage and Storage Transmission	7,823	8,715	6,613	7,355
18	Subtotal	111,660	127,008	93,084	105,548
19					
20					
21	Total	111,660	127,008	93,084	105,548

BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON

**UG 435**

**NW Natural**  
**Exhibit of Kyle T. Walker**

**TEST YEAR / REVENUE REQUIREMENTS**  
**EXHIBIT 1313**

**ERRATA**

February 28, 2022

**NW Natural  
Oregon Jurisdictional Rate Case  
State Allocation Factors**

**NWN/Exhibit 1313  
Walker/ Page 1**

<b>Line No.</b>	<b>Allocation Factors - Summary</b>	<b>Oregon</b>	<b>Washington</b>
1	Customers-all	88.250%	11.75%
2	Customers-Residential	88.130%	11.87%
3	Customers-Commercial	89.390%	10.61%
4	Customers-Industrial	92.530%	7.47%
5	Customers-The Dalles	74.810%	25.19%
6	3-factor	88.910%	11.09%
7	firm volumes	88.950%	11.05%
8	sales volumes	89.560%	10.44%
9	sendout volumes	91.530%	8.47%
10	sales/sendout volumes	90.550%	9.45%
11	Payroll	90.422%	9.58%
12	Admin Transfer	88.456%	11.54%
13	Employee Cost	89.483%	10.52%
14	Regulatory	70.000%	30.00%
15	Telemetry	86.957%	13.04%
16	Direct-Wa	0.000%	100.00%
17	Direct-Or	100.000%	0.00%
18	Gross plant direct assign	87.950%	12.05%
19	Transmission	98.763%	1.24%
20	Depreciation	88.287%	11.71%
21	Rate Base	86.449%	13.55%
22	Distribution	85.279%	14.72%
23	Perimeter	93.750%	6.25%
24	Environmental Admin Costs	96.680%	3.32%
25	Accumulated Depreciation	89.030%	10.97%