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July 8, 2019

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

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

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

The referenced 2000 and 2016 Commission orders allow for the application of a \$3 minimum late payment charge on past due amounts between \$50 and \$200. The Company makes this filing in compliance with Order No. 16-255 issued July 7, 2016.

Background

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

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

NW Natural's request to establish a \$3 minimum late charge was motivated by the Company's objective to encourage on-time customer payments, stating in the Advice Filing that both the Company and ratepayers benefit when more customers pay on time. At that time, NW Natural identified three benefits: (1) improved cash flow; (2) improved credit and collection efficiencies; and (3) reduced bad debt expense.²

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

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

The Company's Advice Filing, as supplemented, was placed on the Commission's consent agenda (Item CA10) at a public meeting of the Commission held on May 19, 2000, and the proposed changes were adopted by the Commission in Order No. 00-267 dated May 23, 2000. The Commission did not place any conditions or time restrictions on the waiver granted by this order.

The changes adopted by the Commission in Tariff P.U.C. Or. 22 and P.U.C. Or. 23 effective June 1, 2000, including the \$3 minimum late charge, were also adopted in two subsequent Tariffs; P.U.C. Or. 24 that went into effect September 1, 2003, by Order No. 03-507 in docket UG 152, and Tariff P.U.C. Or. 25, that went into effect November 1, 2012, by Order No. 12-408 in docket UG 221.³ On July 7, 2016, the Commission issued Order No. 16-255 in docket UM 1631, approving the continuation of the waiver.

Analysis and Discussion

As stated above, the last review and report of the \$3 minimum late charge was filed with the Commission on May 2, 2016, as NWN OPUC Advice 16-04, docket ADV 290. The Commission approved Staff's recommendation to approve the continuation of the Company's waiver of OAR 860-021-0126(3) in Order No. 16-255. Staff's recommendation included a reporting requirement that the Company provide a triennial report to analyze and discuss the effects of the \$3 minimum late payment charge, including whether (1) the \$3 late payment charge provides an incentive for customers to make timely payments; (2) the customer incentive improves the Company's cash flow; (3) the customer incentive improves the Company's credit and collection efficiencies; and (4) the customer incentive reduces the Company's bad debt expense. These effects are addressed below.

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

NW Natural reviewed its residential credit and collections and bad debt expense⁴ for the years 2018 through 2009.⁵ Oregon residential customer data was compared to Washington residential customer data, where the Company has a \$1 minimum late charge. Because NW Natural's Oregon and Washington service areas are similar in terms of economy and pricing, although Washington residential rates have been consistently lower than Oregon residential rates, any difference in results could be indicative of the effect that the \$3 minimum late charge has had.

NW Natural reviewed the number of residential customer accounts that received 20-day notices of disconnection of service since the Company's last review. Customers in both states receive a 20-day notice if a bill was not paid by the due date stated on the bill.

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

⁴ Because the \$3 minimum applies only to balances between \$50 and \$200, and because commercial and industrial bills are typically greater than \$200, the Company looked only at residential accounts.

⁵ NW Natural does not have data in its customer information system before 2009.

Table 1 below shows the percentage of residential customer accounts that received a 20-day notice by state for the years 2018 through 2009, the most historically available period.

Year	Oregon	Washington
2009	5.6%	6.8%
2010	5.0%	5.5%
2011	5.0%	5.6%
2012	4.5%	4.9%
2013	4.3%	4.4%
2014	4.1%	4.3%
2015	3.7%	3.7%
2016	3.4%	3.1%
2017	3.5%	3.5%
2018	3.2%	3.1%
2009-2018 average	4.2%	4.5%

The historical trend in Table 1 illustrates the improvement in the timeliness of customer payments. The percentage of residential customers issued 20-day notices continues to hold at a rate that is a decrease of more than 40% compared to the 2009 experience. The Company believes that the \$3 minimum late charge continues to be a contributing factor influencing Oregon customers' on-time payment behavior.

The data the Company collected also shows that the percentage of Oregon residential customer bills that are assessed a late charge has declined steadily since 2009. Table 2 below shows the percentage of residential bills that had late charges applied for both Oregon and Washington residential bills. The historical trend in Table 2 demonstrates the lower percentage of Oregon residential customers that incurred late fees applied to bills.

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Year	Oregon	Washington
2009	8.6%	10.2%
2010	8.2%	8.8%
2011	8.2%	9.0%
2012	7.3%	7.8%
2013	7.2%	7.3%
2014	6.8%	7.1%
2015	6.4%	6.5%
2016	6.0%	5.8%
2017	6.2%	6.3%
2018	5.6%	5.7%
2009-2018 average	7.1%	7.5%

Table 2 shows that in both states, the percentage of bills that were assessed late charges has declined when compared to 2009, with Oregon remaining slightly lower than Washington where the Company has a \$1 minimum late charge. The Oregon percentage in 2018 represents a 35% decrease in late charges assessed from the experience in 2009, which is the most historically available period in the Company's billing records.

Table 3 below illustrates the Company's experience of gross residential write-offs by state. The data shows that residential write-offs for Washington customers represent, on average, 14.5% of total residential write-offs. This experience is higher than the percentage of residential revenue in Washington, which in 2018 was 11.2%. Again, the Company believes that this data is indicative of the effectiveness of the \$3 minimum late charge influencing Oregon customers' payment behavior.

Year	Oregon	Washington
2009	82.2%	17.8%
2010	85.2%	14.8%
2011	84.6%	15.4%
2012	85.1%	14.9%
2013	86.2%	13.8%
2014	84.0%	16.0%
2015	85.0%	15.0%
2016	87.6%	12.4%
2017	85.6%	14.4%
2018	85.8%	14.2%
2009-2018 average	85.1%	14.5%

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

Table 4 – Residential Write-Offs as a Percentage of Revenue

RESIDENTIAL*

	Oregon:			Washington :		
	Write off	Revenue	%	Write Off	Revenue	%
2009	\$3,445,962	\$511,893,926	0.67%	\$744,871	\$64,080,550	1.16%
2010	\$2,444,223	\$412,360,800	0.59%	\$423,771	\$49,531,694	0.86%
2011	\$2,398,721	\$439,881,295	0.55%	\$437,348	\$54,714,212	0.80%
2012	\$2,097,726	\$390,070,669	0.54%	\$367,734	\$46,985,552	0.78%
2013	\$1,736,494	\$401,953,956	0.43%	\$277,856	\$49,112,448	0.57%
2014	\$1,741,798	\$392,035,459	0.44%	\$332,755	\$48,552,041	0.69%
2015	\$1,424,013	\$369,307,365	0.39%	\$250,874	\$44,671,349	0.56%
2016	\$1,300,979	\$360,693,758	0.36%	\$184,484	\$40,198,408	0.46%
2017	\$1,343,347	\$407,614,445	0.33%	\$225,921	\$51,148,494	0.44%
2018	\$1,124,141	\$362,316,051	0.31%	\$185,827	\$45,624,649	0.41%

*Residential Billed Revenue

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

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

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

(4): Reduced Bad Debt Expense. In 1999, the year before the adoption of the \$3 minimum late charge, the Company's uncollectible expense as a percentage of revenue was about 0.58

percent.⁶ Table 5 below shows the Company's uncollectible expenses for the 2011 through 2018 time period.⁷ The table illustrates the decline in the uncollectible expense as a percentage of revenue over time, which is now at a fraction of the level experienced in 2009.

Year	Total Company
1999	0.58%
2011	0.25%
2012	0.16%
2013	0.03%
2014	0.08%
2015	0.10%
2016	0.125%
2017	0.116%
2018	0.086%

Publically available information for local electric companies in the Company's service territory indicate an estimated uncollectible expense percentage of 0.421% for Pacific Power and 0.343% for Portland General Electric Company.⁸ NW Natural's experience continues to be lower. The Company believes that the effect that the \$3 minimum late charge has had on customer payment behavior is the primary factor behind the significant differences in uncollectible expense between NW Natural and the other local utilities. Given the higher on-time payment behavior discussed above, it would not be unreasonable to assume that the Company would have seen a higher uncollectible expense, possibly at the same or similar levels as the two other local utilities, if the \$3 minimum late charge had not been in effect.

NW Natural's Oregon customers have seen the benefit of lower uncollectible expense in their rates over time. Table 6 below shows the revenue sensitive effect associated with uncollectible expense as applied to the annual changes in customer rates through the Purchased Gas Adjustment process for the years 2018-2011, and for 1999, which is the period before the implementation of the \$3 minimum.

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⁶ Based on data taken from NW Natural's 1999 Annual Report.

⁷ Total Company uncollectible expense data for the 2000 through 2010 time period is not readily available.

⁸ Sources: Pacific Power 2017 Results of Operations, docket RE 56 - percentage calculated based on results after Type 3 Adjustments; Portland General Electric UE 335 General Rate Case, PGE/201, Tooman-Espinoza/page 2.

Table 6 – Historical Uncollectible Expense

	Net Uncollectible Expense	Adjustment to Rates
1999	\$3,475,446	0.824%
2011	\$1,823,551	0.245%
2012	\$1,551,703	0.227%
2013	\$1,459,558	0.227%
2014	\$1,290,601	0.187%
2015	\$1,032,745	0.157%
2016	\$1,036,942	0.170%
2017	\$848,945	0.125%
2018	\$678,352	0.109%

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

Conclusion

As represented by the information provided above, NW Natural believes that the \$3 minimum late charge in effect since May 2000 under the waiver granted by the Commission is reasonable and appropriate, and has and will continue to provide the customer benefits.⁹

If you have any questions, please call me at (503) 721-2452.

Respectfully submitted,

/s/ Natasha Siores

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Manager, Regulatory Compliance

⁹ Additionally, if the Commission were, for any reason, to terminate the long-standing waiver and discontinue the Company's ability to apply a \$3 minimum late charge, NW Natural would experience an expected annual reduction in revenues of about \$615,000.