BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UG 435

In the Matter of	)
	)
NORTHWEST NATURAL GAS CORPORATION, dba NW NATURAL,	)
	)
Request for a General Rate Revision.	)
	)

REBUTTAL TESTIMONY OF

BRADLEY G. MULLINS

ON BEHALF OF

ALLIANCE OF WESTERN ENERGY CONSUMERS

[REDACTED]

June 30, 2022

TABLE OF CONTENTS

EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. ARE YOU THE SAME WITNESS THAT FILED OPENING TESTIMONY IN THIS DOCKET?

A. Yes. I previously filed Opening Testimony in this docket on behalf of the Alliance of Western Energy Consumers ("AWEC").

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. As reflected in the May 31, 2022, Multi-Party Stipulation and the June 29, 2022 Second Multi-Party Stipulation, all issues in this proceeding have been resolved, except issues regarding the Lexington Renewable Natural Gas ("RNG") production facility, the Renewable Tracking Mechanism ("RTM") and issues surrounding Line Extension Allowances. My Rebuttal Testimony responds to the Reply Testimony of Northwest Natural Gas Corporation ("NW Natural") witnesses Kravitz (NW Natural/1600), Chittum (NW Natural/2100), and Walker-Wyman (NW Natural/2300). I also respond to the Opening Testimony of Citizens' Utility Board ("CUB") witness Jenks (CUB/100) witness Gehrke (CUB/200), and Coalition of Communities of Color, Climate Solutions, Verde, Columbia Riverkeeper, Oregon Environmental Council, Community Energy Project, And Sierra Club ("Coalition" witness Burgess (Coalition/200).

Q. PLEASE SUMMARIZE YOUR RESPONSE.

A. Based on my review of the Reply Testimony of NW Natural and the Opening Testimony of Staff, CUB and the Coalition, I have modified some of my recommendations related to Lexington RNG and the RTM, and have a recommendation related to NW Natural's line extension allowance. Specifically, I recommend the Commission:

- *Approve ratemaking for the Lexington RNG production facility that is consistent with the requirements of Senate Bill ("SB") 98, with no allocation to transportation customers.*

- *Adopt a rate spread for the Lexington RNG production facility that considers the overall cost of service results and that is consistent with the rate spread agreed to in the first and second partial multi-party stipulations—regardless of whether the Commission requires transportation customer to share in the Lexington costs;*
- *Decline to amend special contracts for the Lexington RNG production facility in this proceeding;*
- *Decline to consider amortization of deferred Lexington RNG production facility costs in this proceeding;*
- *Hold ratepayers harmless for the ownership of BioCross in the Lexington RNG production facility;*
- *Hold ratepayers harmless for lost tax benefits resulting from the ownership structure of the Lexington RNG production facility;*
- *Adopt an earnings test for the RTM equal to 100 basis points less than NW Natural's authorized return on equity; and*
- *Open a new docket at the conclusion of UM 2178 Natural Gas Fact Finding to address Line Extension Allowances for gas utilities.*

II. LEXINGTON RENEWABLE NATURAL GAS

Q. WHAT WAS YOUR RECOMMENDATION FOR THE LEXINGTON RNG FACILITY IN OPENING TESTIMONY?

A. In Direct Testimony, NW Natural had proposed to recover $3,291,859 for the Lexington RNG facility. In Opening Testimony, I recommended that the Lexington RNG facility be considered a SB 98 project and allocated as a base rate charge as a part of the overall rate spread approved in the proceeding. I also recommended that several adjustments be made to NW Natural's proposed revenue requirement, reducing the overall cost recovery to $1,144,617. Specifically, I recommended: 1) eliminating the deferred revenue requirement over the nine-month period January 24, 2022 through October 31, 2021; 2) reflecting up-to-date natural gas prices; 3) holding ratepayers harmless for the ownership interest BioCross holds in the Lexington RNG facility; and 4) holding ratepayers harmless for foregone tax benefits resulting from the Lexington RNG ownership structure.

Q. HAS NW NATURAL ACCEPTED ANY OF YOUR RECOMMENDATIONS?

A. In response to AWEC's recommendation to update natural gas prices for the project, NW Natural revised the Lexington RNG revenue requirement to update natural gas prices assumed in the Lexington RNG Revenue requirement.

a. Lexington RNG Was Acquired Under Senate Bill 98

Q. WHAT RATEMAKING DID YOU RECOMMEND FOR THE LEXINGTON RNG FACILITY IN OPENING TESTIMONY?

A. Senate Bill 98 only applies to "gas purchased by the large natural gas utility for distribution to retail natural gas customers"[1] Indeed, this project began and was almost ready for commercial operation before Oregon's Climate Protection Program ("CPP") rules were adopted. Accordingly, AWEC recommended that the cost allocation for the Lexington RNG facility be consistent with SB 98 and only apply to sales customers. Further AWEC argued that if some of the Lexington costs are imposed on transportation customers, that the cost allocation be evaluated with the overall cost-of-service results, which shows that large customers are already paying rates that are nearly double their cost-of-service rates.

Q HAVE OTHER PARTIES ACKNOWLEDGED THAT LEXINGTON WAS ACQUIRED PURSUANT TO SB 98?

A. Yes. NW Natural, Staff, CUB and AWEC recently entered into a Comprehensive Stipulation and provided testimony in Docket No. UI 451 acknowledging that the Lexington RNG production facility is an SB 98 project. In testimony supporting the Comprehensive Stipulation

[1] ORS 757.396(a).

the parties stated that "the sole purpose of [NW Natural RNG Holding Company] is to assist the Company in investing in RNG infrastructure under SB 98." [2]

Q. HOW DID NW NATURAL RESPOND TO YOUR OPENING TESTIMONY?

A. NW Natural asserts, albeit incorrectly, that AWEC recommended "that the costs of the Lexington RNG Project should be spread on an equal percent of margin basis."[3] NW Natural also claims that it is reasonable to depart from the requirements of SB 98 because the final rules in Oregon's CPP have since been enacted.[4] NW Natural states that it is the single point of regulation for all emissions associated with customers taking natural gas service on its distribution system, and therefore, that it is reasonable to allocate the cost of the Lexington RNG production facility to all customers, including transportation customers.[5]

Q. DID AWEC RECOMMEND ALLOCATING THE COST OF THE LEXINGTON RNG PRODUCTION FACILITY ON AN EQUAL PERCENT OF MARGIN BASIS?

A. No. As mentioned above, NW Natural mischaracterized or misunderstood my testimony. AWEC recommended that the cost allocation for the Lexington RNG production facility be considered in the context of the overall cost of service study used to establish the rate spread in this proceeding. This recommendation would equally apply if the Commission decided to impose some costs on transportation customers.

Q. WHY DOES AWEC RECOMMEND CONSIDERING LEXINGTON IN THE CONTEXT OF THE OVERALL COST OF SERVICE AND RATE SPREAD?

A. Cost causation is important and should be applied in a consistent manner, both for base rates and for RNG costs. There is no reason to adopt a rate spread that reflects cost causation and

[2] UI 451, NWN-Staff-CUB-AWEC/101, Kravitz-Muldoon-Gehrke-Mullins/3:17-18.
[3] NW Natural/2300, Walker-Wyman/8:13-14.
[4] NW Natural/2300, Walker-Wyman/4:8-17.
[5] *Id.*

ignore that rate spread for a particular project. Large volume customers, including transportation customers, are already paying rates that are nearly double their cost of service. Adopting a volumetric rate for the Lexington RNG production facility, while ignoring the overall rate spread, results in a proportionally higher allocation of costs to large volume customers. Use of a volumetric surcharge for the Lexington RNG production facility, for example, resulted in a 9.3% rate increase to Schedule 32ITI, but only a 0.37% increase to Schedule 02R.[6] Schedule 32ITI's parity ratio, however, was 1.89, meaning Schedule 32ITI customers are paying rates that are 189% of their cost of service. Viewed in isolation, a volumetric surcharge might be viewed as following cost causation, since throughput may be a measure of compliance under the CPP. Considering the volumetric surcharge in isolation, however, is one-sided and unfair to large volume customers because those customers overall rates far exceed their cost of service viewed on a wholistic basis.

Q. WHAT RATE SPREAD DO YOU RECOMMEND?

A. Rather than viewing the Lexington RNG surcharge in isolation, I recommend that the Commission approve an allocation for the Lexington RNG production facility that is consistent with the overall rate spread approved for all other revenue requirement items. This treatment is consistent with the agreement reached in the first and second Multi-Party Partial Stipulations, where parties agreed to allocate the costs of the TSA deferral and COVID deferral consistent with the overall agreed rate spread.[7] This rate spread, including the impact of AWEC's proposed adjustments has been detailed in **Confidential Exhibit AWEC/201**. AWEC recommends this principle be applied regardless of whether transportation customers are

[6] NW Natural/1403, Wyman/2.
[7] SBUA is contesting the Covid deferral rate spread.

allocated costs for the Lexington RNG production facility. Accordingly, **Confidential Exhibit AWEC/201** details two rate spread proposals, one excluding and the other including transportation customers in the rate spread.

A. IS THE CPP A REASON TO DEPART FROM THE REQUIREMENTS OF SB 98?

A. No. The Lexington RNG production facility is the first RNG production facility that NW Natural has acquired for Oregon customers. It is also a small facility, with an immaterial contribution towards meeting the CPP compliance obligations. Depending on how it is calculated, the Lexington RNG facility will contribute RNG sufficient to cover approximately 0.27% of Northwest Natural's sales and 0.17% of its overall throughput. While NW Natural may be the single point of regulation for emissions of its customers under the CPP, it is not yet known how NW Natural will satisfy those compliance obligations. The CPP was implemented just a few weeks prior to NW Natural filing this case and the methods for complying with the CPP are still undergoing review in the Natural Gas Fact Finding Docket No. UM 2178. NW Natural acknowledges that it is still evaluating how it will comply with the aggressive targets in the CPP in its IRP.[8] Evaluation of the equitable allocation of CPP compliance costs necessarily is best considered on a holistic basis, not on a one-off basis for individualized projects acquired for another purpose.

Q. IS THROUGHPUT THE ONLY DRIVER OF CPP COMPLIANCE COSTS?

A. Use of a volumetric surcharge is premised on the notion that CPP compliance costs are driven entirely by throughput. The CPP compliance costs, however, are not necessarily analogous to commodity costs. The actual cost drivers are more complex. CPP compliance costs will be

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[8] NW Natural/2300, Walker-Wyman/7:1-16

driven by *changes* in throughput. Accordingly, if a customer class is reducing its throughput consistent with the targets set out in the regulation, no CPP compliance costs should be imposed on that class, even though they would be allocated costs under a volumetric surcharge. Similarly, if throughput for a customer class is increasing, that customer class is imposing more CPP compliance costs relative to their throughput. Accordingly, AWEC continues to recommend that the Lexington RNG production facility be evaluated as a SB 98 project, with no costs allocated to transportation customers, until a more thorough review of NW Natural's CPP compliance, and the associated cost drivers, can take place.

b. It Is Not Practicable to Reopen Special Contracts in This Proceeding

Q. WHAT WAS CUB'S RECOMMENDATION?

A. In Opening Testimony, CUB recommended that, in addition to allocating Lexington RNG costs to transportation customers, the rates paid by special contract customers also be increased for Lexington RNG costs.[9]

Q. DID NW NATURAL AGREE WITH CUB'S RECOMMENDATION REGARDING SPECIAL CONTRACT CUSTOMERS?

A. NW Natural conceptually supported CUB's recommendation requiring special contract customers to pay additional amounts to fund the Lexington RNG production facility.[10] Notwithstanding, NW Natural recognized the practical concerns associated with updating or amending the special contracts to increase the rates paid by those customers in this proceeding.[11] Instead, NW Natural proposed to defer the revenue requirement which it would

[9] CUB/200, Gehrke/46:16-47:21.
[10] NW Natural/2300, Walker-Wyman/10:3-14.
[11] *Id.*

attribute to special contract customers until such a date that it were possible to amend the contracts.

Q. DO YOU AGREE WITH CUB'S RECOMMENDATION?

A. No. Modifying the terms of NW Natural's special contracts in this proceeding to accommodate the Lexington RNG facility is not practicable. Since the Lexington RNG facility was planned and acquired under SB 98, NW Natural's special contract customers had no expectation that acquiring that facility might result in reopening their contracts. Each of the contracts is unique, subject to different sets of terms and conditions and established based on different circumstances. Therefore, prior to amending the contract, it is necessary to consider and evaluate each contract individually, in consultation with the contracting customer, to establish terms that are acceptable and in the public interest. Rather than undertaking an *ad hoc* process, where individualized RNG projects and surcharges may, or may not, be applied to special contract customers, it is necessary to evaluate the role and responsibilities of special contract customers in meeting NW Natural's CPP obligations, and to memorialize those obligations through an agreement with the individual customers. AWEC recommends that a new docket be opened to review this issue at the conclusion of the ongoing Natural Gas Fact Finding investigation in Docket No. UM 2178.

Q. DOES A NEW COST REQUIRE THE COMMISSION TO MODIFY A SPECIAL CONTRACT?

A. No. Generally, the costs paid by special contract customers are fixed over the term of the agreement, and often subject to an inflationary escalator. The rates paid by each special contract customers are different based on an economic analysis of the individual customers ability to bypass NW Natural's distribution system performed at the time the Commission approved the contract. Had the special contract customers taken advantage of their ability to bypass the gas distribution system and directly connect to an interstate pipeline, ratepayers would have foregone material benefits of retaining the special contract customers on the system through the contribution from the special contract customers to NW Natural's fixed costs. Special contracts are permitted because keeping these customers on NW Natural's system benefits all customers. The rates paid by the special contract customers are fixed, albeit in many instances subject to inflationary escalation, over the life of the agreement in consideration of the customer's commitment to remain on the system. If new costs later arise, such as the need to replace old DuPont pipe, or as in this case, a new RNG production facility, the economic benefits that were considered at the time the special contract customer entered into a long-term commitment to remain on NW Natural's system rather than directly connecting to the interstate pipeline are not reevaluated.

Q. IS IT REASONABLE TO DEFER THE COST TO SPECIAL CONTRACT CUSTOMERS?

A. No. A deferral is not an appropriate tool to address cost allocation to a specific customer. Large customers in this proceeding, for example, are not allowed to defer the amount that they are paying in rates in excess of their cost of service. Using a deferral to address cost allocation between rate classes has many procedural downfalls such as having to deal with earnings tests, which are applicable to only a subset of customers, and considering an appropriate interest rate, which are typically limited for specific customer deposits. Further, using a deferral applicable only to special contract customers would have the effect of amending the contract before the contract is actually amended, and therefore may be impermissible from a contracting perspective.

c. Deferred Lexington RNG Costs Cannot Be Evaluated in This Proceeding

Q. WHAT DID YOU RECOMMEND FOR DEFERRED LEXINGTON RNG COSTS IN OPENING TESTIMONY?

A. In its filing, NW Natural included Lexington RNG revenue requirement that encompasses both the 12-month rate effective period and the nine-month period between the in-service date—approximately January 24, 2022—and the October 31, 2022. Thus, NW Natural's Lexington RNG revenue requirement included 21 months of revenue requirement compressed into a 12-month period. I have been unable to locate any NW Natural request to defer the costs of Lexington, which is being considered outside of Schedule 198. NW Natural also did not identify that it was seeking to amortize a deferral of cost over the period January 24, 2022 through October 31, 2022 in its filing. Therefore, there appears to be no basis to consider the additional 9 months of revenue requirement prior to the rate effective date in this proceeding.

Q. HOW DID NORTHWEST NATURAL RESPOND?

A. NW Natural did not address this issue in its Reply Testimony.

Q. WHAT DO YOU RECOMMEND?

A. I continue to recommend that the nine months of revenue requirement, prior to the rate effective date of this proceeding, be excluded from the calculation of the Lexington surcharge.

Q. IS IT REASONABLE TO ALLOW NW NATURAL TO AMORTIZE DEFERRED COSTS ASSOCIATED WITH LEXINGTON IN THIS PROCEEDING?

A. No. Even if there were a deferral request in place, the costs for Lexington over the approximate nine-month period from January 24, 2022 through October 31, 2022 are not yet known, so it is not possible for the Commission or parties to approve an amortization for those amounts in this proceeding. NW Natural's calculations appear to be entirely based on a forecast, rather than actual costs. Further, Parties have no basis to consider the prudence of the actual cost incurred over the period in this proceeding. Given the operational issues addressed by NW Natural witness Chittum, it would appropriate for the Commission to perform a detailed review of the operational circumstances leading to those production issues.

Q. WOULD IT BE POSSIBLE TO PERFORM AN EARNINGS TEST IN THIS PROCEEDING?

A. No. NW Natural's earnings for 2022 will not be known until sometime around May 2023. Therefore, amortization of the deferred amounts will not be possible until sometime in mid-2023 at the earliest. Since NW Natural has not presented the amount for amortization, nor requested a waiver of the earnings test requirement, it is not clear how NW Natural intends to address this requirement.

Q. WHAT EARNINGS TEST WOULD BE APPROPRIATE?

A. If any deferred revenue requirement amounts are approved, I recommend that an earnings test apply that is consistent with the RTM, or as AWEC recommends,100 basis points below NW Natural's authorized ROE.

Q. IS A ONE YEAR AMORTIZATION APPROPRIATE?

A. No. NW Natural has not requested a specific amortization period for the 9-months of revenue requirement prior to the in-service date. It appears, however, that NW Natural has assumed a one-year amortization. Given that the Lexington RNG facility is a long-lived asset, adopting such a short amortization period is not reasonable. If a one-year amortization is assumed, revenue requirement is pancaked in the first year, resulting in ratepayers paying much higher rates, nearly double the annual revenue requirement, in the first year that the Lexington RNG production facility is included in rates. If some form of deferral is approved, I therefore recommend that a longer amortization period be used. Specifically, I recommend that the amortization be spread over the life of the asset, or 15-years, subject to the Modified Blended Treasury rate.

d. It Is Reasonable to Hold Ratepayers Harmless For the Portion of the Lexington RNG Facility Owned by BioCross

Q. WHAT DID YOU RECOMMEND WITH RESPECT TO THE PORTION OF THE LEXINGTON RNG PRODUCTION FACILITY OWNED BY BIOCROSS?

A. In Opening Testimony, I established that, even though NW Natural contributed all of the capital to construct the Lexington RNG production facility, it does not own the entire facility. As a part of the transaction, NW Natural's development partners BioCarbN and Cross River Partners (collectively "BioCross") received a significant ownership interest in the production facility. Given this ownership structure, I recommended that ratepayers be held harmless, relative to traditional utility ownership, for the ownership interest of BioCross in the Lexington RNG facility. This recommendation is justified since ratepayers are committing to pay for 100% of the cost of the facility, and it is not reasonable to require ratepayers to pay for more than 100% of the cost of the facility due to fact that NW Natural contributed a portion of the assets to BioCross as a part of the development transaction.

Q. HOW DID YOU PROPOSE TO ADDRESS THIS ISSUE?

A. BioCross is not regulated by the Commission, and as a result has the potential to earn a return on the assets it received in the transaction that far exceeds the levels that the Commission would otherwise find to be reasonable. To address this issue, I recommended that the profit distributions to BioCross included in the Lexington RNG revenue requirement calculation be limited to the return that NW Natural would have received on the equivalent investment. To perform this calculation, I took the rate base of the Lexington RNG production facility multiplied by the BioCross ownership interest, which calculated the rate base of the assets owned by BioCross. I then multiplied the rate base value of the assets owned by BioCross by NW Natural's cost of capital, and determined that the profits distribution that ratepayers would otherwise pay in rates in this proceeding, exceeds BioCross' reasonable return on its share of the investment by $52,783. It is not reasonable, any more than it would be for NW Natural, for ratepayers to pay BioCross an excessive rate of return for prudently operating the Lexington RNG Facility.

Q. HOW DID NW NATURAL RESPOND?

A. NW Natural states that the ownership structure that it negotiated with BioCross was "typical", in that "BioCross shares in the benefits if the Lexington RNG project is successful, as well as sharing in risk."[12] NW Natural states that "If NW Natural pursued that strategy [of 100% utility ownership], it would have shifted all the project's risk to NW Natural."[13]

Q. DO YOU AGREE WITH NW NATURAL'S LOGIC?

A. NW Natural is being compensated for the capital at risk in the project by earning its rate of return on 100% of the project assets, even though it only owns a fraction of that amount. If NW Natural is not bearing all of the risk of the project, due to the ownership structure it negotiated, then it would be necessary to reduce NW Natural's compensation to reflect the portion of the facility that NW Natural does not own. NW Natural is obligated to ensure the prudent operation of the facility, regardless of the agent that it designates as the manager. If NW Natural were to manage and operate the facility without BioCross, it would not be necessary to provide it with a level of compensation exceeding its authorized rate of return in order to incentivize it to operate the project prudently. Accordingly, it is not necessary for

[12] NW Natural/2100 at Chittum/19:9-11.
[13] NW Natural/2100 at Chittum/19:15-16

ratepayers to provide BioCross, as NW Natural's agent, with a preferential rate of return in order to reduce the risk of operating the facility. Any excess returns paid to BioCross, which are necessary for NW Natural to reduce the risk of operating the facility, are therefore approximately applied against the returns that NW Natural receives on the portion of the facility it does not own. Accordingly, I continue to recommend that the profits distributions that NW Natural recovers from ratepayers be limited to the return that NW Natural would have earned on the assets.

Q. ARE THERE OTHER WAYS TO ADDRESS THIS ISSUE?

A. Another alternative would be to not allow NW Natural to earn any return on the portion of the RNG facility owned by BioCross. Since NW Natural does not own that portion of the asset, it is not reasonable to provide it a return on the portion it does not own. AWEC did not select this approach, however, because it recognizes that that profits interest given to BioCross was a cash outflow from NW Natural and a form of consideration for the developing the asset, which NW Natural would have had to pay with ratepayer funds if it had not given the interest to BioCross as a part of the transaction.

e. It Is Reasonable to Hold Ratepayers Harmless For Tax Benefits That Will Be Restricted Due To the Ownership Interest of BioCross

Q. WHAT DID YOU RECOMMEND IN OPENING TESTIMONY REGARDING THE TAX BENEFITS OF LEXINGTON RNG?

A. In Opening Testimony, I noted that in future years the amount of ADIT that will be recognized by NW Natural will be restricted as a result of the allocation of tax losses to BioCross associated with ratepayer investments in the facility. I identified the workpaper reference where the expected restricted amounts were located.

Q. HOW DID NW NATURAL RESPOND?

A. NW Natural stated that my concern is not supported by the workpapers I referenced in testimony.[14] NW Natural also stated that AWEC's proposal to hold ratepayers harmless related to the tax structure NW Natural selected, may violate normalization requirements.[15]

Q. DO YOU AGREE?

A. No. While I agree that there is no harm in this proceeding, NW Natural's forecast clearly showed that tax deductions funded by ratepayers will be allocated to the portion of the facility owned by BioCross in future years. AWEC's reason for raising the issue in this proceeding is the requirement in the UI 451 Comprehensive Settlement where parties agreed not to oppose or seek any changes to the Lexington's ratemaking treatment for a period of five years.[16] AWEC is simply requesting that Commission acknowledge the issue so AWEC may raise it in a future proceeding in order to hold ratepayers harmless if the ownership structure results in the limitation of tax benefits that are appropriately allocated to ratepayers.

Q. DID NW NATURAL DISAGREE WITH THE PRINCIPLE THAT IT IS REASONABLE TO HOLD RATEPAYERS HARMLESS?

A. No. While NW Natural does not believe there is any harm to ratepayers, my understanding is that NW Natural would not object to the Commission requiring that ratepayers are held harmless for the tax consequences of its ownership structure in future proceedings, or at least, acknowledging that this is an issue that may be appropriately addressed in a later proceeding.

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[14] NW Natural/2300, Walker-Wyman/11:13-20.
[15] NW Natural/2300, Walker-Wyman/12:1-7.
[16] Docket No. UE-451, Comprehensive Settlement ¶ 3 (Apr. 1, 2022).

Q. DOES AWEC'S PROPOSAL VIOLATE THE NORMALIZATION REQUIREMENTS?

A. No. AWEC's recommendation would be a prudence adjustment to the transfer price associated with RNG and therefore would not implicate normalization requirements.

III. RENEWABLE TRACKING MECHANISM

Q. WHAT DID YOU RECOMMEND IN OPENING TESTIMONY RELATED TO THE RTM?

A. I recommended that the Commission reject the proposed RTM, as the RTM is not necessary for NW Natural to have the opportunity to recover all prudently incurred costs associated with SB 98. I also recommended that if an RTM were approved, the deferral be subject to an earnings test that is 100 basis points less than NW Natural's approved ROE with no ability to defer costs between the in-service date and the rate effective date.

Q. HOW DID NW NATURAL RESPOND?

A. NW Natural claims that an RTM is justified because SB 98 allows it to recover all prudently incurred costs associated with acquiring RNG. NW Natural also claims that there are benefits associated with an RTM, such as avoiding large deferral balances.

Q. HOW DO YOU RESPOND?

A. AWEC would not necessarily oppose an RTM that was designed to accommodate SB 98 projects. Notwithstanding, NW Natural is proposing ratemaking for the cost of SB 98 projects differently than envisioned in SB 98 based on the issuance of the CPP regulations. There is no equivalent requirement for NW Natural to receive an automatic adjustment clause for CPP compliance costs. While such a AAC for CPP might be warranted, that was not the purpose of the RTM, which was designed to accommodate SB 98.

a. An Earnings Test at 100 Basis Points Below NW Natural's Authorized ROE Is Reasonable

Q. WHAT EARNINGS TEST DID YOU PROPOSE FOR THE DEFERRAL PORTION OF THE RTM?

A. If an RTM is approved, I recommended that an earnings test apply to deferrals that is 100 basis points less than NW Natural's authorized return on equity.

Q. HOW DID NW NATURAL RESPOND?

A. NW Natural claimed that this approach is overly punitive because it will "strip away [its] opportunity to earn a fair rate of return for the Company and lead to perpetual under-earning for the Company."[17]

Q. DO YOU AGREE?

A. No. The purpose of the earnings test is to not allow a utility to recover additional deferred costs that it is already reasonably recovering through its general rates. The deferral portion of the RTM allows NW Natural to recover costs incurred between the in-service date and the rate effective date of the RTM. This approach eliminates regulatory lag, which is a benefit to NW Natural. The benefit of eliminating regulatory lag, however, is only reasonably provided when the investment contributed to NW Natural underearning. The revenues that NW Natural receives cannot be color coded for individualized projects. Accordingly, if NW Natural's earnings are reasonable, notwithstanding the regulatory lag, then it has appropriately recovered the regulatory lag associated with new investments and would be provided a windfall if it is allowed to recover additional funds through the RTM. Similarly, the authorized return on equity is not a precise target, or a minimum threshold. Rates are set at a level such that the return on equity can be reasonably achieved, although NW Natural's earnings may be higher or

[17] NW Natural/1600, Kravitz/39:6-13

lower than the authorized level. Thus, it is not reasonable to eliminate all regulatory lag in instances where NW Natural is otherwise earning within a reasonable range of its authorized return on equity. Eliminating regulatory lag does not serve the purpose of guaranteeing NW Natural to earn no less than its precise authorized rate of return. NW Natural does not, for instance, have to refund earnings in cases where its actual returns exceed its authorized rate of return. Therefore, setting the earnings test at 100 basis points below the authorized level is a reasonable threshold to apply before deferring the impacts of regulatory lag associated with RNG projects in the RTM

Q. WHEN WOULD THE EARNINGS TEST BE PERFOMRED?

A. To facilitate an earnings review, I recommended that the deferred costs be considered in the year subsequent to the year that a new RNG project goes into service. For example, a project that is placed into serve on March 1, 2023 will be included on a going-forward basis in the RTM filing effective November 1, 2023. The deferred costs incurred over the period March 1, 2023 through October 31, 2023, however, would not be considered in the RTM until November 1, 2024 following an earnings review. Since NW Natural's earnings for the 2023 deferral period will not be available until 2024, it is necessary to wait until 2024 to consider the deferred costs in rates.

Q. IS A ONE YEAR AMORTIZATION REASONABLE FOR THE DEFERRAL PORTION OF THE RTM?

A. No. Like the Lexington RNG production facility, a problem with the deferral portion of the RTM is that in the initial period ratepayers will be subject to higher costs because they will be paying for the cost of both the deferred and the forecasted cost. This results in pancaking of costs, which is undesirable from a rate stability perspective. Accordingly, similar to

Lexington, I recommend that the deferral be spread over several years to promote a more stable rate trajectory. Specifically, I recommend that the deferred costs in the RTM be spread over the life of the underlying facility and accrue interest at the Modified Blended Treasury rate.

IV. LINE EXTENSION ALLOWANCES

Q. HOW DO YOU RESPOND TO THE VARIOUS LINE EXTENSION ALLOWNACE PROPOSALS?

A. I don’t have a specific recommendation for this case. The policy around line extensions is being discussed in the Natural Gas Fact Finding proceeding, UM 2178, and implicates Oregon customers and other gas utilities in Oregon. In my view, broader policy issues should be decided before a specific policy is implemented in a rate case. Accordingly, I recommend that at the conclusion of UM 2178, that the Commission open a docket to discuss line extension allowances for gas utilities. This will allow a broader discussion of the issue rather than having a significant policy issue decided in this case with limited stakeholder participation.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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AWEC/201

AWEC Proposed Lexington Rate Spread

[REDACTED]

June 30, 2022

REDACTED

AWEC Proposed Lexington Rate Spread

Line No.	Rate Schedule	Margin Revenue at Present Rates	Total Revenue at Present Rates	Multi-Party Stipulation Appendix B						
				Revenue Requirement			EDIT Amortization Credit		Total: Rev. Req. Items	
				Margin Increase ($)	Margin Increase (%)	Revenue Increase (%)	Margin Increase ($)	Margin decrease (%)	Margin Increase ($)	Margin Increase (%)
		A	B	C	D	E	F	G	H = F+I	I
1	02R	$ 302,743,546	$ 468,913,370	$ 46,600,997	15.4%	9.9%	$ (2,942,709)	-1.0%	$ 43,658,288	14.4%
2	03C	$ 92,803,627	$ 162,351,317	$ 16,134,942	17.4%	9.9%	$ (1,019,567)	-1.1%	$ 15,115,375	16.3%
3	03I	$ 2,141,772	$ 4,226,612	$ 257,579	12.0%	6.1%	$ (16,273)	-0.8%	$ 241,305	11.3%
4	27R	$ 471,508	$ 796,163	$ 83,516	17.7%	10.5%	$ (5,274)	-1.1%	$ 78,242	16.6%
5	31CSF	$ 8,261,800	$ 17,117,489	$ 993,567	12.0%	5.8%	$ (62,724)	-0.8%	$ 930,843	11.3%
6	31CTF	$ 981,292	$ 981,292	$ 118,019	12.0%	12.0%	$ (7,450)	-0.8%	$ 110,569	11.3%
7	31ISF	$ 3,237,130	$ 8,236,625	$ 389,371	12.0%	4.7%	$ (24,600)	-0.8%	$ 364,771	11.3%
8	31ITF	$ 143,836	$ 143,836	$ 17,300	12.0%	12.0%	$ (1,093)	-0.8%	$ 16,207	11.3%
9	32CSF	$ 11,882,484	$ 30,465,691	$ 1,429,055	12.0%	4.7%	$ (90,315)	-0.8%	$ 1,338,741	11.3%
10	32ISF	$ 2,462,192	$ 8,156,582	$ 72,402	2.9%	0.9%	$ (4,574)	-0.2%	$ 67,828	2.8%
11	32CTF	$ 1,024,698	$ 1,024,698	$ 30,143	2.9%	2.9%	$ (1,909)	-0.2%	$ 28,235	2.8%
12	32ITF	$ 6,584,741	$ 6,584,741	$ 193,831	2.9%	2.9%	$ (12,272)	-0.2%	$ 181,559	2.8%
13	32CSI	$ 2,232,839	$ 10,222,297	$ 268,568	12.0%	2.6%	$ (16,986)	-0.8%	$ 251,581	11.3%
14	32ISI	$ 3,307,718	$ 14,833,805	$ 97,263	2.9%	0.7%	$ (6,141)	-0.2%	$ 91,122	2.8%
15	32CTI	$ 525,889	$ 525,889	$ 15,477	2.9%	2.9%	$ (993)	-0.2%	$ 14,483	2.8%
15	32ITI	$ 6,064,679	$ 6,064,679	$ 178,677	2.9%	2.9%	$ (11,741)	-0.2%	$ 166,936	2.8%
16	33T	$ 0	$ 0	$ 0	0.0%	0.0%	$ 0	0.0%	$ 0	0.0%
17	**Total**	**$ 444,869,752**	**$ 740,645,087**	**$ 66,880,707**	**15.0%**	**9.0%**	**$ (4,224,621)**	**-0.9%**	**$ 62,656,086**	**14.1%**
18	**Total Excl. Trans**	**$ 429,544,617**	**$ 725,319,952**	**$ 66,327,260**			**$ (4,189,163)**		**$ 62,138,097**	

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