

ORDER NO. **17 281**

ENTERED **JUL 25 2017**

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1714(2)

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

Application for Reauthorization to Defer
Certain Expenses or Revenues Related to
Projects Submitted Under Senate Bill 844.


ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on July 25, 2017, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:




Michael Dougherty
Chief Operating Officer

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. CA5

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT**

PUBLIC MEETING DATE: July 25, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE January 17, 2017

DATE: July 17, 2017

TO: Public Utility Commission

FROM: Mitchell Moore *mpm*

THROUGH: *JE for JE* Jason Eisdorfer and Marc Hellman *AB*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1714(2)) Requests
Reauthorization to Defer Revenues and Expenses Associated With
Projects Developed Under SB 844.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural's (NW Natural or Company) request to reauthorize the deferral of costs associated with the development of projects to be submitted under Senate Bill 844 for the 12-month period beginning January 17, 2017, for accounting purposes only.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's request for reauthorization to defer costs associated with the development of projects to be submitted under Senate Bill 844.

Applicable Law

NW Natural makes this filing in accordance with 757.259 and OAR 860-027-0300¹ seeking authority to defer costs related to the development of voluntary Emission Reduction Programs under SB 844 (codified at ORS 757.539). ORS 757.259 authorizes the Commission to allow a utility to defer, for later recovery in rates, expenses or revenues in order to minimize frequency of rate changes or to match

¹ NW Natural also cites ORS 757.210, but that statute concerns rate changes and is not pertinent to this request for deferral reauthorization.

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appropriately the costs borne by and benefits received by customers. OAR 860-027-0300 sets forth several requirements for applications to defer. ORS 757.539(5) authorizes the Commission to allow the utility to recover incremental costs of Emission Reduction Programs from ratepayers that may receive a benefit from the emissions reduction.

Analysis

Background:

Senate Bill 844 established a voluntary emission reduction program (Emission Reduction Program) for natural gas utilities to invest in projects that reduce greenhouse gas emissions that the utilities would not otherwise undertake in the normal course of business.

NW Natural developed a project intended to incentivize customers to install Combined Heat and Power (CHP) systems. NW Natural presented that project to the Commission for approval in Docket UM 1744. The Commission denied NW Natural's application to proceed with the project in Order No. 16-132 primarily on the basis of high-cost impact to rate payers.²

NW Natural states that it is currently developing several other carbon emission reduction projects in response to the passage of Senate Bill 844. NW Natural believes that the Emission Reduction Program, provided in ORS 757.539 and OAR 860-085-0500 through OAR 860-085-0750, has enabled the Company to pursue greenhouse gas reduction projects that were historically uneconomical, by allowing the utility an opportunity for cost recovery and financial incentives to undertake such projects. However, a specific timetable for filing other applications has not been set.

Proposed Accounting:

NW Natural proposes to account for the costs associated with the Carbon Solutions Program by recording the deferrals in Account 186. In absence of approval of deferred accounting, the Company would record the amounts in several accounts affecting the Company's income statement and balance statement.

Estimated Deferrals in Authorization Period:

NW Natural does not have sufficient information at this time to accurately estimate the amount subject to deferral. The Company anticipates that it will need to make a demonstration of the incremental nature of these costs at the time it seeks any cost recovery.

² See Order No. 16-132 at 5.

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Pursuant to OAR 860-027-300(4)(b), NW Natural states that it has not accrued any deferred expenses in the previous 12 months; however, NW Natural deferred \$107,707 under the previous deferral authorization.

Information Related to Future Amortization:

- Earnings review – An earnings review is required prior to amortization, pursuant to ORS 757.259(5).
- Prudence Review – A prudence review is required prior to amortization and should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Under ORS 757.539(8)(b), the Commission determines the method a utility should use to recover costs of programs approved under that statute at the time it approves the program.
- Rate Spread/Design – Under ORS 757.539(8)(a), the Commission determines which ratepayers should be charged for a program approved under that statute at the time it approves the program.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

Conclusion

NW Natural's application meets the requirements of ORS 757.259 and the Company should be allowed to defer project costs associated with Senate Bill 844. The Commission has found that "encourage[ing] utility or customer behavior consistent with regulatory policy" is appropriate for deferred accounting. (See Docket No. UM 1147, Order No. 05-1070 at 2). Although NW Natural does not have a project pending at this time for which it is incurring costs, Staff supports the deferral to enable the Company to record costs as it pursues projects in the future. It should be noted that at the time of amortization, each project that the Company would like to amortize must be completed (used and useful) and approved by the Commission.

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PROPOSED COMMISSION MOTION:

Approve Northwest Natural's request to defer costs associated with Emission Reduction Program costs for the 12-month period beginning January 20, 2017.

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