

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: October 25, 2022**

REGULAR **CONSENT** **EFFECTIVE DATE** November 1, 2022

DATE: October 13, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: NOTHWEST NATURAL:
(Docket No. UM 1420(13))
Request for Re-authorization for Defer Industrial DSM Program Costs.

STAFF RECOMMENDATION:

Staff recommends that Northwest Natural's (NW Natural, NWN, or Company) application for reauthorization to defer, with interest, the incremental costs associated with the Industrial Demand Side Management (DSM) program be approved for the 12-month period beginning March 1, 2022.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's request for reauthorization to defer the incremental costs associated with the Company's Industrial DSM program for later recovery in rates.

Applicable Rule or Law

NW Natural submitted its deferral application on February 28, 2022, in accordance with ORS 757.259(2)(e), ORS 757.262, and OAR 860-027-0300. ORS 757.259(2)(e) provides the Commission with authority to authorize the deferral of utility revenues and expenses, for later inclusion in rates, upon finding that the deferral would minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities. Previous approval of this deferral was most recently

granted by Order No. 21-116. ORS 757.262 addresses the Commission's authority regarding utility acquisition of cost-effective conservation resources and small-scale, renewable-fuel electric generating resources.

Analysis

This application is for accounting purposes only. As in the past, NW Natural will seek amortization of the current balance in the Company's next annual Purchased Gas Adjustment Mechanism in October 2022.

Background

The company has offered Demand Side Management (DSM) programs to its residential and commercial customers since 2002.¹ NW Natural's Industrial Demand Side Management (DSM) Program was established in 2009 in response to its 2008 Integrated Resource Plan (IRP) wherein NW Natural identified cost-effective DSM for Industrial Firm Sales Customers. Although the 2008 IRP did not include a technical study to assess the potential of cost-effective DSM for Industrial Interruptible Sales Customers, the program offering was also extended to this customer class pursuant to a Memorandum of Understanding (MOU) signed by NW Natural, Commission Staff, Northwest Industrial Gas Users, and the Citizens' Utility Board of Oregon (collectively, Parties).

The MOU established a two-year pilot program for Industrial DSM and required an assessment at the end of the period to determine whether the program should be made permanent. In 2011, Parties signed a new MOU that converted the pilot Industrial DSM program to a permanent offering, available to all industrial customers except those receiving service under a transportation rate.

NW Natural's Schedule 360 Industrial Demand Side Management (DSM) Programs outlines the terms of this offering and the deferred amounts are collected from the

¹ See id : The Company established Residential and Commercial DSM programs in accordance with Commission Order No. 02-634, which approved the Company's Residential and Commercial decoupling mechanism. Re NW Natural Gas Co.'s Application for Public Purposes Funding and Distribution Margin Normalization, Docket UG 143, Order No. 02-634 at 4-5 (Sept. 12, 2002). Because decoupling removes the risk of experiencing a lost margin when customers adopt efficiency measures, it was appropriate to simultaneously introduce DSM programs. Order No. 02-634 also established the Company's public purpose charge which, in part, funds the Company's Residential and Commercial DSM programs. As agreed to by parties of both decoupling dockets (UG 143 and UG 163), Industrial Customers were exempt from the decoupling mechanism and the public purpose charge. Id.; Re NW Natural Gas Co. Investigation Regarding Possible Continuation of Distribution Margin Normalization Tariff, Docket No. UG 163, Order No. 05-934 (Aug. 25, 2005). Commercial Sales Customers served on Rate Schedule 32 were considered Industrial Customers at the time Commission Order No. 02-634 was issued and were, therefore, excluded from the DSM programs considered therein, as described below.

appropriate customer classes through Schedule 188, subject to Commission approval.

Description of Expense

In this Application, the Company is asking to defer the costs, plus interest, that are associated with the studying, planning, administering, and delivering of its Industrial DSM Program.

The Company's Industrial DSM Program complies with the stipulation adopted in Commission Order No. 05-934. That stipulation prevents the Company from charging the Schedule 301, Public Purpose Charge to Industrial Customers served on Schedules 3, 31, 32, and special contracts as well as prevents those customers from being eligible for Energy Trust DSM Programs funded by the Public Purpose Charge.

Reason for Deferral

This request is made in accordance with ORS 757.259(2)(e), which allows the deferral of utility expenses where necessary to appropriately match the costs borne by and benefits received by ratepayers.

Proposed Accounting

The Company proposes to account for the deferred expenses related to the Industrial DSM Program by recording the deferral in a sub-account of Account 186 (Miscellaneous Deferred Debits). In the absence of deferred accounting, the Company would record Industrial DSM Program expenses in the appropriate sub-account of FERC Account 909.

Last Year's Activity

NW Natural deferred during the last deferral year of March 1, 2021, through February 28, 2022, was \$5,382,595 plus interest on the deferral of \$219,902.

Current Estimate of Amounts

NW Natural estimates that the amount to be deferred in the 12-month period beginning March 1, 2022, through February 28, 2023, to be approximately \$6,031,586 million.

Reason for Continued Deferral

NW Natural continues to offer its Industrial DSM Program. The acquisition of cost-effective DSM is in compliance with OAR 860-027-0310 which encourages utilities to provide the least cost resources as identified in its most recent integrated resource plan.

Information Related to Future Amortization

- Earnings Review – Pursuant to Commission Order No. 18-017, Appendix A at paragraph 7.9:

If a Participating Public Utility seeks rate recovery through a deferred account, the account and amortization of the account shall be exempt from the amortization caps and earnings test set forth in subsections 5,6,7,8 and 10 of ORS 757.259, as such subsections may be amended from time to time, and shall not be included in any calculation of the amortization cap for other deferred accounts.

- Prudence Review – For amortization, the prudence review should be limited to verification of the accounting methodology used to determine the final amortization balance.
- Sharing – This deferral is not subject to a sharing mechanism.
- Rate Spread/Design – Account balances are to be spread to the appropriate customer classes per Order No. 18-017, Appendix A at paragraph 7.7(b).
- Three Percent Test (ORS 757.259(6)) – The three percent test does not apply to amortization of this deferral. See “Earnings Review” above.

Conclusion

As Schedule 360, Industrial Demand Side Management Programs, is still in effect, and this application meets the statutory requirements of ORS 757.259 and OAR 860-027-0300, I recommend Commission approval.

The Company has reviewed this memo and agrees with its contents.

PROPOSED COMMISSION MOTION:

Approve NW Natural’s request for reauthorization to defer Industrial DSM program costs for the 12-month period beginning March 1, 2022 through February 28, 2023.