



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

#### *Background*

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 2024.

The company has offered Demand Side Management (DSM) programs to its residential and commercial customers since 2002.<sup>1</sup>

The NWN industrial 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 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

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<sup>1</sup> UM 1420 NW Natural's Application for Reauthorization to Defer Costs Associated with Industrial DSM Programs (February 21, 2024).

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 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.

The Company also requests deferral of the costs associated with the studying, planning, administration, and delivery of the Industrial DSM Program. ORS 757.259 is a "statutorily authorized exception to the general prohibition against retroactive ratemaking" that allows a "means to address utility expenses or revenues outside of the utility's general rate case proceeding."<sup>2</sup>

*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.

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<sup>2</sup> *In re Matter Public Utility Commission of Oregon Staff Request to Open Investigation Related to Deferred Accounting*, Docket UM 1147, Order No. 05-1070 at 2 (October 5, 2005).

*Current Estimate of Amounts*

The Company estimates the amount to be recorded in the deferred account for the 12-month period beginning March 1, 2023, through February 29, 2024, Docket No. UM 1420(14), to be approximately \$7,231,588 million.

And The Company estimates the amount to be recorded in the deferred account for the 12-month period beginning March 1, 2024, through February 28, 2025, Docket No. UM 1420(15), to be approximately \$9,311,588.

The amount deferred during the last deferral year of March 1, 2023, through February 29, 2024, was \$7,231,588 plus interest on the deferral of \$262,866.

Also, \$1,019,576 was amortized in rates November 1, 2023, through December 31, 2023.

The interest rate for deferral accounts is 6.836%, and an estimate of the upcoming PGA-period deferral and/or amortization would be approx. \$7,494,454.

*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.

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### 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, 2023, through February 28, 2024. Also, for the 12-month period beginning February 29, 2024, through February 28, 2025.

NWN UM 1420(14)(15)