

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: February 23, 2016

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE January 20, 2016

DATE: January 27, 2016

TO: Public Utility Commission

FROM: Judy Johnson *JJ*

THROUGH: *J* Jason Eisdorfer and *A* Marc Hellman

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1714(1)) 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 20, 2016, for accounting purposes only.

**ISSUE:**

NW Natural requests reauthorization to defer costs associated with the development of projects to be submitted under Senate Bill 844.

**APPLICABLE RULES AND LAWS:**

NW Natural makes this filing in accordance with ORS 757.210, 757.259 and OAR 860-027-0300 related to the development of projects to be submitted under Senate Bill 844, codified as ORS 757.539, and OAR 860-085-0500 through OAR 860-085-0750, implementing that law.

**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. ORS 757.539 (codified from SB 844) authorizes the Commission to allow the utility to recover costs of Emission Reduction Programs from ratepayers and specifies the Commission shall determine in a final order approving an Emission Reduction Program the method by which such costs are to be recovered and from which ratepayers.

Description:

NW Natural is in the process of developing projects to be implemented pursuant to the law, and files this this request to defer costs incurred in developing the projects to ensure that it preserves the ability to assign to each project the appropriate expenses that may incur in developing such project, and to recover those costs as determined appropriate by the Commission.

NW Natural states that it is currently developing several 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.

NW Natural has asked for Commission approval of one such project (being reviewed in Docket No. UM 1744), and could seek Commission approval for additional projects, although a specific timetable for filing the 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.

Pursuant to OAR 860-027-300(4)(b), NW Natural states that it has deferred \$107,707 under the deferral for which it currently seeks reauthorization.

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. Because PGE is an electric utility, ORS 757.259(8) allows the Commission to consider up to a six percent limit. The limit for these deferrals will be determined at the time of amortization. Amortization of this deferral will also be subject to the rate cap authorized under ORS 757.539(10), which provides that "[t]he commission shall establish a rate cap for each public utility for which a project is authorized under this section. The rate cap must limit the cost of all of the public utility's projects authorized under this section to an amount that does not exceed a percentage of the public utility's revenue requirement as identified by the Commission by rule or order."

Staff Analysis:

NW Natural has met the requirements of ORS 757.259 and should be allowed to defer the project costs. The Commission has found that "encourage[ing] utility or customer behavior consistent with regulatory policy" is appropriate for deferred accounting. (See Docket UM 1147, Order No. 05-1070 at 2). Staff believes, in this case, NW Natural's deferral supports the regulatory policy of Senate Bill 844. However, 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:**

Northwest Natural's request to defer costs associated with Emission Reduction Program costs for the 12-month period beginning January 20, 2016, be approved.

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