



match appropriately the costs borne by and benefits received by ratepayers."  
ORS 757.259(2)(e).

In OAR 860-027-0300(3), the Commission has set the requirements for the contents of deferred accounting applications. Applications for reauthorization must include a description and explanation of the entries in the deferred account, up to the date of the application for reauthorization, as well as the reason for continuation of deferred accounting. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. With some exceptions, a company's amortization of amounts deferred under ORS 757.259(5) cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. ORS 757.259(6).

## Analysis

### *Background*

On March 8, 2020, Oregon Governor Kate Brown declared a statewide state of emergency due to the public health threat posed by the novel infectious coronavirus, COVID-19.

On June 9, 2020, the Commission held a Special Public Meeting on the impacts of COVID-19. As a result of the Special Public Meeting, the Commission opened an investigation into the effects of COVID-19, which would later be docketed as UM 2114. The state of emergency ended April 1, 2022.

On March 24, 2020, NW Natural filed UM 2068, requesting the Commission authorize the Company to defer for later ratemaking treatment costs from the COVID-19 public health emergency. This was initially approved by Order No. 20-380 and subsequently reauthorized for an additional 12 months by Order No. 22-093. NW Natural filed another application to reauthorize UM 2068 on March 22, 2022, which was approved in Order No. 22-146.

In Docket UM 2114, Staff, all six Commission jurisdictional energy utilities, and interested stakeholders participated in a series of workshops and meetings, leading to the creation of an Energy Term Sheet representing agreement in principle by Avista (AVA), Cascade Natural Gas (Cascade or CNG), Idaho Power Company (IPC), NW

Natural, (PacifiCorp (PAC), Portland General Electric (PGE), Staff, Oregon Citizens' Utility Board (CUB), Community Action Partnership of Oregon (CAPO), Multnomah County Office of Sustainability (MCo), Northwest Energy Coalition (NVEC), and Verde (collectively, the Parties). The Term Sheet was incorporated into a Stipulated Agreement that was approved by the Commission in Order No. 20-401.

In Docket UG 435, the parties entered into a stipulation with terms for amortization of the 2020 and 2021 deferral balances. The stipulation also provided that NW Natural may request a prudence review and amortization of post-2021 balances at a later date.<sup>1</sup> Order No. 22-388, Appendix A at 28.

Though minimal, the Company continues to incur net expenses related to arrearage management program (AMP) time payment arrangement matching grants that were offered in compliance with the Stipulated Agreement in UM 2114.<sup>2</sup>

#### *Reason for Deferral*

ORS 757.259(2)(e) allows the deferral of identifiable utility expenses in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs.

Due to the unpredictable and unprecedented nature of the emergency, these costs are not currently recovered in rates, outside normal business risk, and, accordingly, deferred accounting treatment will match appropriately the costs borne by and the benefits received by customers. Accordingly, the Stipulated Agreement provided that the initial COVID-19 deferrals would be approved.<sup>3</sup>

#### *Proposed Accounting*

NW Natural is proposing to record the deferral in FERC Account 186.

#### *Estimated Deferrals in Authorized Period*

The actual amount subject to deferral is dependent on the remaining AMP participant payments submitted to the Company. The Company notes that it cannot provide the actual total amount to deferred under this reauthorization; however in discussions with Staff, NW Natural indicated that as of March 20, 2023, and there are 124 remaining accounts with approximately \$29,600 in pending matching grants. According to the Company, if customer payments for these accounts stay current on their plans, these funds will most likely be paid out in the next two to three months.

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<sup>1</sup> Order No. 22-388, Appendix A at 28.

<sup>2</sup> See Docket No. UM 2114; <https://apps.puc.state.or.us/edockets/DocketNoLayout.asp?DocketID=22570>.

<sup>3</sup> Order No. 20-401, Appendix A at 19.

Below are the time payment matching grants that were applied for 2023 by month.

	<u>2023</u>
January	\$3,960.30
February	\$2,297.00
March	<u>\$784.48</u>
	\$7,041.78

Note: March amount is only partial and reflects actuals through March 20 only.

*Information Related to Future Amortization*

- Earnings Review – Prior to amortization, an annual earnings review will be conducted pursuant to ORS 757.259(5). In Docket UG 435, the parties agreed to apply an earnings test to portions of the deferred amount, set at the Company’s authorized ROE. For these types of costs discussed in this memo, Staff recommends no earnings test be applied.
- Prudence Review – Prior to amortization, a prudence review will be conducted. The prudence review will include the verification of the accounting methodology used to determine the final amortization balance, as well as a review of all costs proposed for amortization (including any offsetting cost savings).
- Interest Rate – The deferral balance, whether being accrued (pre-prudence), found to be prudent in an annual prudence review (pre-amortization), or being amortized, shall accrue the same interest rate, equal to the Modified Blended Treasury (MBT) rate plus 100 basis points, consistent with Order No. 20-401. To the extent the amortization of the deferral is more than two years for a utility that utility may request that the Commission authorize a larger basis point spread. For regulatory and ratemaking purposes, the financing of the deferral will not be included in the capital structure of the utility.
- Sharing – This deferral is not subject to a sharing mechanism. However, as described above, NW Natural has agreed to accrue interest on this deferral equal to the **MBT plus 100 basis points**. This is a departure from the standard established by the Commission to use the Company’s authorized rate of return for deferral balances not yet reviewed for prudence. This is a substantive interest differential and materially benefits customers by reducing the amounts recoverable by the utilities.
- 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 (with exceptions) 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

Based on Staff's review of NW Natural's application for reauthorization, Staff concludes that the proposal represent an appropriate use of deferred accounting under ORS 757.259. Staff notes that in the prior reauthorization review, there was consideration of limiting the deferred accounting for COVID-19 related expense to the pandemic phase of the crisis. However, Staff determined that it would be prudent to extend the deferral authorizations beyond the policy changes to align with the customer protections included in Order No. 20-401, including the arrearage management plan offered by NW Natural, which has remaining authorization, the expense of which is to be included in the COVID-19 deferrals. Thus, Staff finds that this justification for extending the authorization is still relevant and that the remaining amounts may be deferred per the terms of the matching grant AMPs offered by the Company. As such, Staff is supportive of the Company's deferral application as filed.

The Company has reviewed this memo and agrees with or expresses no objections to Staff's recommendation.

### **PROPOSED COMMISSION MOTION:**

Approve NW Natural's application for reauthorization of deferred accounting of COVID-19 related costs for the 12-month period beginning March 24, 2023.