

VIA ELECTRONIC FILING

December 21, 2021

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

Re: UM 2145 – NW Natural’s Application to Defer Cost of Service Associated with Tyson RNG Project

In accordance with ORS 757.259 and OAR 860-027-0300, Northwest Natural Gas Company, dba NW Natural (“NW Natural” or “Company”), files herewith an application (“Application”) to use deferred accounting for the cost of service associated with the Tyson Fresh Meats renewable natural gas project in Lexington, Nebraska. The Company previously filed a deferral application in this docket on December 31, 2020, for the period ending December 31, 2021. The Commission has yet to rule on that application. In this Application, NW Natural seeks to extend the deferral period for the Lexington RNG Project through December 30, 2022.

A notice concerning this Application will be sent to all parties that participated in the Company’s last general rate case, UG 388. A copy of the notice and the certificate of service are attached to the application.

Please address correspondence on this matter to me with copies to the following:

eFiling
Rates & Regulatory Affairs, NW Natural
250 SW Taylor Street
Portland, Oregon 97204
Fax: (503) 220-2579
Phone: (503) 610-7330
eFiling@nwnatural.com

If you have any questions, please contact me.

Sincerely,

/s/ Kyle Walker, CPA

Kyle Walker, CPA
Rates/Regulatory Manager

Attachments

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2145

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba, NW NATURAL

For Authorization to Defer Cost of
Service Associated with Tyson RNG
Project Pursuant to ORS 757.259

**SECOND APPLICATION FOR
DEFERRED ACCOUNTING**

1 Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the
2 “Company”), requests authorization to defer for later ratemaking treatment the
3 cost of service associated with the Tyson Fresh Meats Renewable Natural Gas
4 Project in Lexington, Nebraska (“Lexington Project”). This application for
5 deferred accounting treatment (“Application”) is made pursuant to ORS
6 757.259(2)(e) and OAR 860-027-0300. The Company previously filed a deferral
7 application in this docket on December 31, 2020, for the period ending December
8 31, 2021. The Commission has yet to rule on that application. In this
9 Application, NW Natural seeks to extend the deferral period for the Lexington
10 RNG Project through December 30, 2022.

11 NW Natural is a public utility providing retail natural gas service in the
12 State of Oregon and is subject to the jurisdiction of the Commission regarding
13 rates, service, and accounting practices.

14 Communications regarding this Application should be addressed to:

NW Natural
e-Filing for Rates & Regulatory
Affairs
250 SW Taylor Street
Portland, Oregon 97204-3038
Phone: (503) 610-7330
Facsimile: (503) 220-2579
Email: eFiling@nwnatural.com

Ryan Sigurdson
Regulatory Attorney (OSB #201722)
250 SW Taylor Street
Portland, Oregon 97204-3038
Phone: (503) 610-7618
Email: ryan.sigurdson@nwnatural.com

Kyle Walker, CPA
Manager, Rates & Regulatory
Affairs
250 SW Taylor Street
Portland, Oregon 97204-3038
Phone: (503) 610-7051
Email: kyle.walker@nwnatural.com

1
2
3
4
5
6
7
8
9
10
11
12
13

I. BACKGROUND

On July 15, 2019, Senate Bill 98 (ORS 757.390-398) was enacted to facilitate the acquisition of renewable natural gas (“RNG”) by allowing natural gas utilities to fully recover their prudently incurred costs associated with such acquisitions.¹ For a “large natural gas utility,” such as NW Natural, ORS 757.396 also includes certain RNG targets. These targets are phased in over time, starting at 5% of Oregon sales in 2020 and gradually increasing to 30% by 2045.²

One of NW Natural’s initial steps in meeting these first-in-the-nation RNG targets is the Lexington Project. The Lexington Project is scheduled to begin start-up operations in January 2022 and fully go into service the following month. It is expected to produce approximately 1.9 million therms of RNG per year, which is approximately 0.27% of NW Natural’s Oregon sales. The Lexington Project is located next to a Tyson Fresh Meats beef packaging plant and will use

¹ ORS 757.394; ORS 757.396(2).
² ORS 757.396(1).

1 anaerobic digester technology to convert animal waste and other byproducts
2 from the plant into RNG. This RNG will be injected into the Black Hills Energy
3 local distribution system and will generate Renewable Thermal Certificates³ that
4 will be used to meet SB 98 targets per OAR 860-150-0050.

5 NW Natural respectfully requests approval authorizing the deferral for
6 future ratemaking treatment of the Lexington Project’s cost of service, which are
7 not currently included in rates. This amount reflects the Company’s qualified
8 investment in the project and includes: 1) incremental depreciation expense, 2)
9 return on investment at the most recently authorized rate of return, 3) income and
10 property taxes, 4) operating and maintenance costs, and 5) other costs and
11 revenues relating to the Company’s qualified investment.

12 II. APPLICATION

13 ORS 757.259 empowers the Commission to authorize the deferral of
14 expenses or revenues of a public utility for later inclusion in rates.⁴ The
15 Commission has established rules implementing this statute in OAR 860-027-
16 0300, including specific requirements for deferred accounting applications—each
17 of which is addressed in turn, below.

³ OAR 860-150-0010 defines “Renewable Thermal Certificates” as a “unique representation of the environmental attributes associated with the production, transport, and use of one dekatherm of renewable natural gas.”

⁴ See also *In re Pub. Util. Comm’n of Or. Investigation of the Scope of the Commission’s Authority to Defer Capital Costs*, Docket UM 1909, Order No. 20-147 at 3, 11 (Apr. 30, 2020) (ORS 757.259 “empowers the Commission to authorize the deferral of capital project costs, including depreciation expense and financing costs.”).

1 **A. Description of the Expenses to be Deferred – OAR 860-027-**
2 **0300(3)(a).**

3 NW Natural requests that the Commission authorize the deferral of the
4 project's cost of service through December 30, 2022. NW Natural's current
5 estimate of the cost of service during this period is approximately \$1.4 million.
6 This amount, however, may change based on differences in costs actually
7 incurred as the Lexington RNG project commences commercial operation.

8 As stated above, this reflects the Company's qualified investment in the
9 project. It includes incremental depreciation expense associated with the
10 qualified investment for such items as RNG upgrading equipment that separates
11 the methane component of the biogas from carbon dioxide and interconnection
12 process piping equipment. The cost of service also includes return on
13 investment at the most recently authorized rate of return, income and property
14 taxes, operating and maintenance costs (such as expenses to maintain the RNG
15 upgrading equipment), and other costs and revenues relating to the Lexington
16 RNG project.

17 In addition, in its previous deferral application filed in this docket, NW
18 Natural sought to defer project costs through December 31, 2021. As of
19 November 30, 2021, these start-up operating and maintenance costs total
20 approximately \$80,742.

1 **B. Reasons Deferred Accounting is Requested – OAR 860-027-**
2 **0300(3)(b)**

3 ORS 757.259 is a “statutorily authorized exception to the general
4 prohibition against retroactive ratemaking” that “empowers the Commission to
5 authorize the deferral of capital project costs, including depreciation expense and
6 financing costs,” as well as a utility’s other expenses and revenues.⁵

7 As specifically relevant to this Application, ORS 757.259(2)(e) grants the
8 Commission discretion to authorize a deferral in order to minimize “the frequency
9 of rate changes . . . or to match appropriately the costs borne by and benefits
10 received by ratepayers.” The Commission applies “a flexible, fact-specific
11 approach” to determining whether deferred accounting meets either prong of this
12 two-part test.⁶ Deferring the cost of service of the Lexington Project for recovery
13 until after it enters service will align the project’s costs and benefits, consistent
14 with ORS 757.259(2)(e)’s matching principle. Granting this deferral will also give
15 NW Natural the opportunity to later demonstrate that the costs it has incurred are
16 prudent and can be recovered in rates.

17 NW Natural’s proposed deferred accounting treatment is consistent with
18 Commission precedent that has allowed electric utilities to defer the cost of
19 renewable resources under SB 838.⁷ For instance, in 2007, the Commission

⁵ *In re Pub. Util. Comm’n of Or. Investigation of the Scope of the Commission’s Authority to Defer Capital Costs*, Docket UM 1909, Order No. 20-147 at 3, 11 (Apr. 30, 2020).

⁶ Order No. 05-1070 at 5.

⁷ See e.g., *In the Matter of PacifiCorp, Application for Deferral of Costs Relating to Renewable Resources Pursuant to SB 838*, Docket UM 1338, Order No. 07-457 (Oct. 4, 2007); *In the Matter of PacifiCorp, Application for Deferral of Costs Relating to the Dunlap I Wind Resource*, Docket UM 1503, Order No. 10-484 (Dec. 20, 2010); and *In the Matter of Portland Gen. Elec. Co., Application for Deferral of Revenue Requirement of Incremental Costs Associated with Baldock Solar Project*, UM 1574, Order No. 12-063, (Feb. 28, 2012).

1 adopted Staff’s recommendation to defer the costs associated with a number of
2 PacifiCorp renewable projects.⁸ In its report, Staff stated that SB 838
3 “authorize[d] [electric] utilities to timely recover in rates all costs that are
4 prudently incurred relating to investment in renewable energy facilities and
5 associated transmission,” and concluded that “deferred accounting is a method
6 of timely cost recovery for costs prudently incurred relating to investment in
7 Renewable Resources.”⁹ As stated above, ORS 757.394 and ORS 757.396(2)
8 also authorizes NW Natural to fully recover its prudently incurred costs related to
9 RNG. To ensure that NW Natural has the opportunity to recover its prudently
10 incurred costs, deferred accounting for RNG resources should be permitted as
11 well.

12 **C. Accounting Treatment of Expenses With and Without Deferred**
13 **Accounting – OAR 860-027-0300(3)(c).**

14 Beginning on December 31, 2020,¹⁰ and ending on December 30, 2022,
15 NW Natural proposes to account for the costs associated with the Lexington
16 Project by recording the deferral in Account 186. In the absence of approval of
17 deferred accounting, NW Natural would record the amounts in several accounts
18 affecting the Company’s income statement and balance sheet.

⁸ *In the Matter of PacifiCorp, Application for Deferral of Costs Relating to Renewable Resources Pursuant to SB 838*, Docket UM 1338, Order No. 07-457 (Oct. 4, 2007).

⁹ Order No. 07-457, Staff Report at 2.

¹⁰ Date of NW Natural’s original deferral application in this docket.

1 **D. Estimation of the Amounts Subject to Deferral – OAR 860-027-**
2 **0300(3)(d).**

3 As described above, NW Natural anticipates incurring approximately
4 \$1.4 million in Lexington Project costs by December 30, 2022.

5 **E. Notice of the Application for Deferred Accounting – OAR 860-027-**
6 **0300(3)(e).**

7 OAR 860-027-0300(3)(e) requires NW Natural to provide a copy of the
8 notice of application for deferred accounting and list those persons served with
9 the notice. Notice must be served on all persons who were parties in the
10 Company's last general rate case.¹¹

11 A notice of this Application has been served to all parties who participated
12 in the Company's last general rate case, docket UG 388. A copy of this notice is
13 attached to this Application.

14 **F. Entries in the deferred account to the date of the application for**
15 **reauthorization – OAR 860-027-0300(4)(a)**

16 As of November 30, 2021, NW Natural has sought to defer approximately
17 \$80,742. These are start-up operating and maintenance costs associated with
18 the project. As stated above, the Commission has not yet ruled on NW Natural's
19 initial application to defer this amount.

¹¹ OAR 860-027-0300(6).

1 **G. Reasons Deferred Accounting Should be Continued -- OAR 860-027-**
2 **0300(4)(b)**

3 In its initial application in this docket, NW Natural sought deferred
4 accounting of the costs described in section F above. In this Application, NW
5 Natural seeks to continue to defer those costs through December 30, 2022. This
6 will give the Company the opportunity to recover all of its prudently incurred costs
7 in the project as provided in ORS 757.394 and ORS 757.396.

8 **III. CONCLUSION**

9 NW Natural respectfully requests that the Commission issue an order
10 authorizing the Company to defer the amounts described in this Application
11 associated with the Lexington Project, as described in this Application.

12 Dated this 21st day of December, 2021.

13 Respectfully Submitted,

14 NW NATURAL

15 /s/ Kyle Walker, CPA
16 Kyle Walker, CPA
17 Rates/Regulatory Manager
18 250 SW Taylor Street
19 Portland, Oregon 97204-3038
20 Phone: (503) 610-7051
21 Email: kyle.walker@nwnatural.com

22
23 /s/ Ryan Sigurdson
24 Ryan Sigurdson
25 Regulatory Attorney (OSB #201722)
26 250 SW Taylor Street
27 Portland, Oregon 97204-3038
28 Phone: (503) 610-7618
29 Email: ryan.sigurdson@nwnatural.com



UM 2145

**NOTICE OF APPLICATION TO DEFER THE COST OF SERVICE
ASSOCIATED WITH TYSON RNG PROJECT**

December 21, 2021

To All Parties Who Participated in UG 388

Please be advised that on December 21, 2021 Northwest Natural Gas Company, dba NW Natural (“NW Natural” or “Company”), applied for AUTHORIZATION TO DEFER THE COST OF SERVICE ASSOCIATED WITH THE TYSON FRESH MEATS RNG PROJECT IN LEXINGTON, NEBRASKA.

This is not a rate case. The purpose of this Notice is to inform parties that participated in the Company's last general rate case, UG 388, that a Deferral Application (“Application”) has been filed.

Parties who desire more information or who wish to obtain a copy of the filing, or notice of the time and place of any hearing, if scheduled, should contact the Company or the Commission as follows:

**NW Natural
Attn: Kyle Walker
250 SW Taylor Street
Portland, Oregon 97204
Phone: (503) 610-7051**

**Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
PO Box 1088
Salem, Oregon 97308-1088
Phone: (503) 378-6678**

Any person may submit to the Commission written comments on this matter within 25 days of the service of this notice. The granting of this Deferral Application will not authorize a change in rates but will permit the Company to defer amounts in rates to a subsequent proceeding.

* * * * *



CERTIFICATE OF SERVICE

UM 2145

I hereby certify that on December 21, 2021 I have served by electronic mail the foregoing NOTICE OF APPLICATION TO DEFER COST OF SERVICE ASSOCIATED WITH TYSON RNG PROJECT upon all parties of record for the Company's last general rate case, UG 388.

UG 388

OREGON CITIZENS' UTILITY
BOARD
dockets@oregoncub.org

WILLIAM GEHRKE
OREGON CITIZENS' UTILITY
BOARD
will@oregoncub.org

MICHAEL GOETZ
OREGON CITIZENS' UTILITY
BOARD
mike@oregoncub.org

LISA RACKNER
MCDOWELL RACKNER &
GIBSON PC
dockets@mrg-law.com

STEPHANIE ANDRUS
PUBLIC UTILITY COMMISSION
stephanie.andrus@state.or.us

EDWARD FINKLEA
ALLIANCE OF WESTERN
ENERGY CONSUMERS
efinklea@awec.solutions

TOMMY A BROOKS
CABLE HUSTON LLP
tbrooks@cablehuston.com

CHAD M. STOKES
CABLE HUSTON LLP
cstokes@cablehuston.com

JANET MERRELL
COMMUNITY ACTION
PARTNERSHIP OF OREGON
janet@caporegon.org

KEITH KUENY
COMMUNITY ACTION
PARTNERSHIP OF OREGON
keith@caporegon.org

NW NATURAL
efiling@nwnatural.com

ERIC NELSEN
NW NATURAL
eric.nelsen@nwnatural.com

DATED December 21, 2021, Troutdale, OR.

/s/ Erica Lee-Pella
Erica Lee-Pella
Rates & Regulatory Affairs, NW Natural
250 SW Taylor Street
Portland, Oregon 97204
(503) 610-7330
erica.lee-pella@nwnatural.com