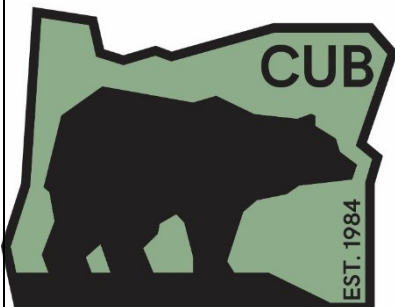


**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON  
UM 2155**

In the Matter of )  
Northwest Natural )  
Application for Authorization to Defer )  
Certain Costs Associated with Phase 3 of )  
the Geographically Targeted Energy )  
Efficiency Pilot. )  
\_\_\_\_\_ )

**COMMENTS OF THE  
OREGON CITIZENS' UTILITY BOARD**

April 15, 2021



**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON  
UM 2155**

In the Matter of

NORTHWEST NATURAL GAS COMPANY, )  
Application for Authorization to Defer Certain )  
Costs Associated with Phase 3 of the )  
Geographically Targeted Energy Efficiency )  
Pilot. )

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COMMENTS OF THE  
OREGON CITIZENS' UTILITY  
BOARD

**I. INTRODUCTION**

The Oregon Citizens' Utility Board (CUB) submits these comments in regards to Regular Agenda Item 3 at the April 20<sup>th</sup> 2021 Public Meeting. NW Natural has requested to defer for later ratemaking costs associated with Phase 3 NW Natural's Geographically Targeted Energy Efficiency (GeoTEE) pilot program. In its deferred accounting application, NW Natural indicated that the Company is planning on seeking guidance on the appropriate funding and recovery mechanism for GeoTEE. NW Natural is seeking to capitalize GeoTEE expenses. Given the procedural nature of deferred accounting application applications that are intended to track costs or benefits. It is premature for the Commission to consider NW Natural's proposal. As an alternative, CUB recommends that the Commission collect NW Natural's Phase III GeoTEE as an annual expense under this deferral and not enable NW Natural to capitalize this expense.

**II. GEOTEE COST RECOVERY**

CUB is supportive the GeoTEE pilot program. If GeoTEE programs are successful, these programs will provide Oregon natural gas local distribution companies (LDCs) with additional

tools to address gas systems capacity needs and maintain the reliability of the gas distribution system. To be clear, CUB is not proposing that NW Natural be denied cost recovery for the GeoTEE pilot program and is interested in the results of the pilot program.

A. *The GeoTEE program is a pilot program*

NW Natural is conducting the GeoTEE program in coordination with the Energy Trust of Oregon (ETO), as a pilot program. As stated in the Company's application, the goal of this program is to "gather information necessary to evaluate whether GeoTEE can be a cost-effective capacity resource alternative to supply-side distribution system projects for a natural gas local distribution company (LDC)."

NW Natural signaled that it is seeking to capitalize GeoTEE project and program costs over a longer time period than traditional energy efficiency programs. Based on discovery from NW Natural, the Company is planning seeking to recover the GeoTEE program costs over a 26-year time horizon. The 26-year average measure life is based on preliminary estimates from the Energy Trust of Oregon and NW Natural.

In the Company's application, it states that pipeline projects costs are collected over the life of the pipeline asset from customers, while energy efficiency costs are typically collected from customers on an annual basis. The Company goes on to say that since GeoTEE is designed to be a direct replacement of a distribution system project, it should be capitalized and recovered over a longer period of time than traditional energy efficiency. NW Natural also states that the capitalization of GeoTEE will reduce the rate shock and volatility for customers.

CUB believes that it premature for the Commission to rule on the Company's proposal to capitalize GeoTEE, while these types of projects are currently in the pilot project phase. Because the pilot program is not completed, NW Natural has not demonstrated that GeoTEE is a

replacement for distribution reinforcement supply side projects. While it would be disappointing, the results of the pilot may show that GeoTEE is not sufficient to replace capital investments to its distribution system. It may show that instead of replacing natural gas distribution infrastructure, GeoTEE could just delay additional natural gas distribution infrastructure for a period of time. It could be problematic for ratepayers to finance a distribution reinforcement system “alternative” over 26 years when it created little additional value as opposed to traditional energy efficiency programs. As noted in the NW Natural’s 2016 IRP action plan, this pilot project is meant to quantify the potential of demand-side resources to cost-effectively avoid/delay gas distribution system reinforcement projects. CUB recommends that rather than assuming success, the pilot should be allowed to demonstrate whether it has potential for success.

CUB proposed approach of recovering the GeoTEE phase III expenses through a deferral, will not lead to rate shock or volatility for customers. According to the compliance filing from NW Natural’s last rate case UG 388, NW Natural is projected to collect \$669.6 million of revenue from Oregon customers. NW Natural is budgeting \$644,196 for phase III of the GeoTEE program, which is ~0.09% of NW Natural’s Oregon revenues. Due to the small dollar amount associated with phase III of the pilot program, the status quo of recovering this expense through an annual deferral will not have a significant rate impact to NW Natural’s customers.

Looking ahead, CUB also believes that there may alternative mechanisms to NW Natural’s capitalization approach such as a multi-year rate plans for enhanced energy efficiency or a percentage of revenue annual budget for enhanced energy efficiency. Since these alternative mechanisms avoid financing energy efficiency at the company’s post tax rate of return over several decades, these alternative cost recovery programs may be cheaper for customers, while

also avoiding the rate shock and volatility associated with annual recovery of enhanced energy efficiency expense. CUB is open to evaluating capitalization of enhanced EE if these programs are proven to be cost effective replacements for distribution system reinforcement projects and if it is the best option to balance short term costs and long term project benefits to customers. At this early stage of GeoTEE lifecycle, CUB is concerned that approval of capitalization with the pilot program expenses in the deferral will lead to a precedent on future treatment of enhanced energy efficiency expenses for all Oregon LDCs. CUB looks forward to addressing these issues at the proper time, but stresses that time is not now.

CUB also notes that enhanced energy efficiency is also a tool that may be necessary for NWN to comply with DEQ's Cap-and-Reduce program and that the PUC intends to open a fact finding to look at the risk to customers from future decarbonization requirements. The Oregon DEQ rulemaking and the Commission fact finding are expected to be completed by the end of 2021 and may further inform the development of larger enhanced energy efficiency programs after this pilot stage.

### **III. CONCLUSION**

CUB does not oppose the use of a deferred accounting application to govern the potential recovery of these pilot program expenses. CUB believes that it is premature for the Commission to enable to capitalize NW Natural's expenses and asks for the Commission to treat the GeoTee Expenses as an annual expense under the deferral.

Dated this 15th day of April, 2021.

Respectfully submitted,



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