

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 20, 2021**

REGULAR  X  CONSENT       EFFECTIVE DATE  February 28, 2021

**DATE:** April 12, 2021

**TO:** Public Utility Commission

**FROM:** Mitchell Moore

**THROUGH:** Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UM 2155)  
Requests Authorization to Defer Costs Associated with its GEOTEE Pilot Program.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural, NWN, or Company) application to defer costs associated with the third phase of its Geographically Targeted Energy Efficiency (GEOTEE) pilot program for the 12-month period beginning February 28, 2021.

**DISCUSSION:**

Issue

Whether the Commission should approve NW Natural's request for authorization to defer costs associated with Phase 3 of its GEOTEE pilot program.

Applicable Law

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

Identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the

frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers.

In OAR 860-027-0300(3), the Commission has set forth the requirements for the contents of deferred accounting applications. Applications for reauthorization must include that information along with a description and explanation of the entries in the deferred account to the date of the application for reauthorization and 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 are allowed in rates to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral.

## Analysis

### *Background*

In LC 64, NW Natural's 2016 IRP, the Company included an action item focused on a potential new "non-pipeline solution" distribution system planning tool aimed at reducing peak load growth with targeted demand-side management ("DSM"). The Action Plan directed the Company to work with Energy Trust of Oregon ("ETO") to further scope a geographically targeted DSM pilot via accelerated and/or enhanced incentive offerings ("Targeted DSM" pilot) to measure and quantify the potential of DSM resources to cost-effectively avoid or delay gas distribution system reinforcement projects. The Commission acknowledged the Action Item in Order No. 17-059.

NW Natural has continued to work with the ETO in the intervening years to develop a program from this Action Item. The pilot program, rebranded as GEOTEE was included as part of NW Natural's 2018 IRP Update filed with the Commission on April 17, 2019.

### *Current Filing*

The main goal of the GEOTEE pilot is to learn how targeted energy efficiency programs could impact the peak gas demand of a specific geographic region in order to delay or avoid the need for significant gas distribution capital improvements.

The NW Natural GEOTEE pilot has three phases. The first phase began in September 2019 and focused solely on increasing the marketing of existing offerings to the geographic region. The second phase provided increased incentives for a set of gas measures and expands the eligibility requirements for some measures. These expanded incentives are still within ETO's cost-effectiveness bounds. The second phase began in June 2020, two months sooner than initially scheduled, to align with

expanded program offerings that ETO was offering in the other portions of its service territory in response to the impacts of the COVID-19 pandemic.

The third phase will include greater incentives that reflect a localized avoided cost that goes beyond the current statewide cost-effectiveness bounds. Funds for the third phase require the approval of the Commission before it begins in August 2021.

The Company is not seeking cost recovery in this filing, but it also proposes a potential cost recovery methodology that would capitalize the EE costs and recover them over a longer time period than traditional EE program costs. NW Natural reasons that since the GEOTEE program is intended to be a direct replacement for a distribution pipeline capacity upgrade that it may, if proven cost-effective, promote new ways for the Company to invest in its distribution system.

*Description of Expense*

These costs are for increased EE incentives for customers in the Creswell/Cottage Grove area.

*Proposed Accounting*

NW Natural proposes to account for any costs associated with the GEOTEE pilot on its balance sheet to later be included in customer rates. In the absence of approval of deferred accounting, the Company would record the amounts in FERC 923 expense account.

*Estimated Deferrals in Authorization Period*

NW Natural anticipates the costs for the Phase 3 activities to be \$644,196, as reflected in the agreement between ETO and NW Natural.

Conclusion

Staff concludes that NW Natural's application meets the requirements of ORS 757.259. The Company should be allowed to defer pilot costs developed in conjunction with Commission regulatory policy goals of encouraging and increasing cost-effective energy efficiency. The Commission has found that "encourage[ing] utility or customer behavior consistent with regulatory policy" is appropriate for deferred accounting. (See Docket No. UM 1147, Order No. 05-1070 at 2).

*Capitalization*

With regard to the Company's proposal to capitalize GEOTEE expenses for long-term amortization, Staff makes no recommendation at this time. A main purpose of the pilot project is to learn whether geographically targeted enhanced energy efficiency

incentives could become a cost-effective capacity resource. If such measures are determined to be an effective substitute for distribution pipeline projects, a closer examination of NW Natural's proposal would be warranted. At this point, however, Staff believes it is premature to identify an appropriate cost recovery mechanism.

**PROPOSED COMMISSION MOTION:**

Approve NW Natural's application to defer costs associated with third phase of its GEOTEE pilot program for the 12-month period beginning February 28, 2021.