

August 31, 2023

VIA ELECTRONIC FILING

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

Re: UM 2192 – NW Natural’s Application for Reauthorization to Defer Accounting for TSA Security Directive 2 Compliance Expenses

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”) for reauthorization to defer accounting for Transportation Security Administration Security Directive 2 compliance expenses. The Company previously filed a deferral reauthorization application in this docket on September 1, 2022, for the period ending September 1, 2023. The Commission has yet to rule on that application. In this Application, NW Natural seeks to extend the deferral period through September 1, 2024.

This Application contains proprietary business and financial information considered confidential under General Protective Order No. 21-431.

A notice concerning this Application will be sent to all parties who participated in the Company’s last general rate case, UG 435. 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 Senior Manager

Attachments

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2192

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba, NW NATURAL

For Reauthorization to Defer
Accounting for TSA Security Directive 2
Compliance Expenses

APPLICATION

1 Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the
2 “Company”), requests reauthorization to defer for later ratemaking treatment the
3 amounts spent by NW Natural to comply with Department of Homeland
4 Security’s Transportation Security Administration (“TSA”) Security Directive
5 Pipeline-2021-2 (“Security Directive 2”). This application for reauthorization of
6 deferred accounting treatment (“Application”) is made pursuant to ORS
7 757.259(2)(e) and OAR 860-027-0300. The Company previously filed a deferral
8 reauthorization application in this docket on September 1, 2022 for the period
9 ending September 1, 2023. The Commission has yet to rule on that application.
10 In this Application, NW Natural seeks to extend the deferral period for the TSA
11 Security Directive 2 expenses through September 1, 2024.

12 In support of this Application, NW Natural states:

1 **A. NW Natural.**

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

5 **B. Statutory Authority.**

6 This application is filed pursuant to ORS 757.259, which empowers the
7 Commission to authorize the deferral of expenses or revenues of a public utility
8 for later inclusion in rates.

9 **C. Communications.**

10 Communications regarding this Application should be addressed to:

11 e-Filing
12 NW Natural Rates & Regulatory Affairs
13 250 SW Taylor Street
14 Portland, Oregon 97204
15 Phone: (503) 610-7330
16 Email: eFiling@nwnatural.com;

17
18 Ryan Sigurdson (OSB #201722)
19 Regulatory Attorney
20 250 SW Taylor Street
21 Portland, Oregon 97204
22 Phone: (503) 610-7570
23 Email: ryan.sigurdson@nwnatural.com;

24
25 and

26
27 Kyle Walker, CPA
28 Rates/Regulatory Senior Manager
29 250 SW Taylor Street
30 Portland, Oregon 97204
31 Phone: (503) 610-7051
32 Email: kyle.walker@nwnatural.com

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I. BACKGROUND

The TSA issued two security directives addressing cybersecurity issues for critical pipeline owners and operators: Security Directive Pipeline-2021-01 (“Security Directive 1”) and Security Directive 2. As an owner and operator of critical pipelines, NW Natural must comply with these directives, and in this Application, NW Natural seeks to defer costs associated with implementation of Security Directive 2.

The TSA issued Security Directive 2 on July 20, 2021 and has been subsequently amended several times, most recently on July 26, 2023.¹ Security Directive 2 requires designated owners and operators to (1) implement specific mitigation measures to protect against ransomware attacks and other related threats, (2) develop and implement a cybersecurity contingency and response plan, and (3) conduct a cybersecurity architecture design review. NW Natural is implementing Security Directive 2 and expects to continue incurring expenses to comply with these requirements.

The Company recognizes the importance of TSA security directives given the increase in cybersecurity incidents targeting the energy industry and the role the Company plays as an owner and operator of critical pipeline infrastructure. NW Natural expects to continue to incur significant compliance costs due to the comprehensive aims and reach of Security Directive 2.

¹ https://www.tsa.gov/sites/default/files/tsa-sd-pipeline-2021-02d-w-memo_07_27_2023.pdf.

1 **II. APPLICATION**

2 ORS 757.259 empowers the Commission to authorize the deferral of
3 expenses or revenues of a public utility for later inclusion in rates.² The
4 Commission has established rules implementing this statute in OAR 860-027-
5 0300, including specific requirements for deferred accounting applications—each
6 of which is addressed in turn, below.

7 **D. Description of the Expenses or Revenues for which Deferred**
8 **Accounting is Requested – OAR 860-027-0300(3)(a).**

9 The TSA issued the security directives to protect critical pipeline systems
10 and Security Directive 2 does so by requiring owners and operators to implement
11 specific mitigation measures, to implement cybersecurity contingency and
12 recovery plans, and to conduct cyber security architecture design reviews. NW
13 Natural requests that the Commission authorize the deferral of the TSA Security
14 Directive 2 expenses through September 1, 2024.³ NW Natural’s current
15 estimate of Security Directive 2 expenses from September 1, 2023 to September
16 1, 2024 is unknown due to many factors surrounding the TSA Directive.

17 **E. Reasons Deferred Accounting is Requested – OAR 860-027-**
18 **0300(3)(b)**

19 ORS 757.259 is a “statutorily authorized exception to the general
20 prohibition against retroactive ratemaking” that provides a “means to address

² 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.”).

³ This deferral also includes expenses that NW Natural incurs to comply with any TSA revisions to Security Directive 2.

1 utility expenses or revenues outside of the utility’s general rate case
2 proceeding.”⁴ The Commission has discretion under ORS 757.259(2)(e) to
3 authorize deferral of “[i]dentifiable utility expenses or revenues, the recovery or
4 refund of which the commission finds should be deferred in order to minimize the
5 frequency of rate changes or the fluctuation of rate levels or to match
6 appropriately the costs borne by and benefits received by ratepayers.” Here,
7 deferred accounting is appropriate because complying with Security Directive 2 is
8 mandated by a federal agency, imperative to ensuring pipeline security, and will
9 continue to cause NW Natural to incur significant costs that are not currently
10 accounted for in the Company’s rates. This includes capital investments and
11 incremental operations and maintenance (“O&M”) expense, both ongoing and
12 start up. Importantly, these critical and prudent costs may not otherwise be
13 recoverable absent authorization of deferred accounting. Finally, the use of
14 deferred accounting will allow for matching of the costs borne by and benefits
15 received by ratepayers.

16 **F. Accounting Treatment of Expenses With and Without Deferred**
17 **Accounting – OAR 860-027-0300(3)(c).**

18 Beginning on the date of its original deferral application (September 1,
19 2021), NW Natural proposes to account for the expenses incurred because of
20 TSA Security Directive 2 compliance on the company’s balances sheet, to later
21 be included in customer rates.

⁴ *In re Public Utility Commission of Oregon, Staff Request to Open an Investigation Related to Deferred Accounting*, Docket UM 1147, Order No. 05-1070 at 2 (Oct. 5, 2005).

1 **G. Estimated Amounts Subject to Deferral – OAR 860-027-0300(3)(d).**

2 As described above, NW Natural does not have estimates for this deferral
3 for the September 1, 2023 to September 1, 2024 time period due to TSA's
4 amendments to the directive; the most recent of which was issued on July 26,
5 2023.

6 **H. Notice of the Application for Deferred Accounting – OAR 860-027-**
7 **0300(3)(e)**

8 OAR 860-027-0300(3)(e) requires NW Natural to provide a copy of the
9 notice of application for deferred accounting and list those persons served with
10 the notice. Notice must be served on all persons who were parties in the
11 Company's last general rate case.⁵

12 A notice of this Application has been served to all parties who participated
13 in the Company's last rate case, docket UG 435. A copy of this notice is
14 attached to this Application.

15 **I. Description of Utility Expense or Revenue for which Deferred**
16 **Accounting is Requested – OAR 860-027-0300(4)(a)**

17 As of July 31, 2023, NW Natural has sought to defer approximately [REDACTED]
18 [REDACTED]. These are expenses related to complying with Security Directive 2.

19 **J. Reason Deferred Accounting is Being Requested -- OAR 860-027-**
20 **0300(4)(b)**

21 In this Application, NW Natural seeks to continue to defer costs through
22 September 1, 2024. As explained in section E above, deferred accounting is

⁵ OAR 860-027-0300(6).

1 appropriate because complying with Security Directive 2 is mandated by a
2 federal agency, imperative to ensuring pipeline security, and will continue to
3 cause NW Natural to incur significant costs that are not currently accounted for in
4 the Company's rates.

5 **K. Requirement per Commission Order No. 09-263**

6 Below is the information required per Commission Order No. 09-263,
7 issued in Docket UM-1286, Staff's Investigation into Purchase Gas Adjustment
8 ("PGA") Mechanisms:

- 9 1. **A completed Summary Sheet, the location in the PGA filing, and**
10 **an account map that highlights the transfer of dollars from one**
11 **account to another.**

12 The Summary Sheet will be included in the 2024-25 PGA filing work
13 papers and in the electronic file entitled "Proposed Temps Oregon
14 2024-25 PGA filing.xlsx."

- 15 2. **The effective date of the deferral**

16 This application is for the 12-month period beginning September 2,
17 2023, and ending September 1, 2024.

- 18 3. **Prior year Order Number approving the deferral**

19 Approval to use deferred accounting for amounts associated with the
20 TSA Directive was last granted on October 24, 2022, in Commission
21 Order No. 22-388. The Commission has not ruled on the
22 reauthorization deferral application that the Company filed on
23 September 1, 2022.

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/s/ Ryan Sigurdson
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UM 2192

**NOTICE OF APPLICATION FOR REAUTHORIZATION TO DEFER ACCOUNTING
FOR TSA SECURITY DIRECTIVE 2 COMPLIANCE EXPENSES**

August 31, 2023

To All Parties Who Participated in UG 435

Please be advised that on August 31, 2023, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for REAUTHORIZATION TO DEFER ACCOUNTING FOR TSA SECURITY DIRECTIVE 2 COMPLIANCE EXPENSES.

This is not a rate case. The purpose of this Notice is to inform parties who participated in the Company's last general rate case, UG 435, that a deferral reauthorization 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 reauthorization will not authorize a change in rates but will permit the Company to defer amounts in rates to a subsequent proceeding.

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CERTIFICATE OF SERVICE

I hereby certify that on August 31, 2023, I have served by electronic mail the NOTICE OF APPLICATION FOR REAUTHORIZATION TO DEFER ACCOUNTING FOR TSA SECURITY DIRECTIVE 2 COMPLIANCE EXPENSES upon all parties of record for NW Natural's last general rate case, UG 435. The unredacted, confidential portions of the application have also been served electronically to parties who have signed General Protective Order No. 21-431 in docket UM 2192.

UG 435 / UM 2192

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DATED August 31, 2023, Troutdale, OR.

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