

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: July 26, 2022**

**REGULAR**  **CONSENT**  **EFFECTIVE DATE** October 1, 2022

**DATE:** July 26, 2022

**TO:** Public Utility Commission

**FROM:** Heather Cohen

**THROUGH:** Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

**SUBJECT:** Cascade Natural Gas Corporation:  
(Docket No. UM 2230)  
Cascade's Application for Deferral of Costs and Revenues Associated  
with the Energy Affordability Act.

**STAFF RECOMMENDATION:**

Approve Cascade Natural Gas Corporation (Cascade or Company) application to defer incremental costs and revenues associated with implementation of the Company's Energy Discount Program (EDP) under 2021's House Bill (HB) 2475 for the twelve-month period beginning on October 1, 2022.

Require Cascade to establish a separate account to track and defer incremental administrative costs associated with the EDP.

**DISCUSSION:**

Issue

Whether the Commission should approve Cascade's application to defer costs and revenues associated with implementation and administration of the Company's EDP under the Energy Affordability Act (HB 2475).

### Applicable Rule

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.

ORS 757.259(2)(e). 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).

ORS 757.230, as amended by 2021's HB 2475, provides the Commission the authority to take certain considerations into account when determining a comprehensive classification of service for each public utility; including, the quantity used, the time when used, the purpose for which used, the existence of price competition or a service alternative, the services being provided, the conditions of service, differential energy burdens on low-income customers and other economic, social equity or environmental justice factors that affect affordability for certain classes of utility customers. Section 7 of HB 2475, codified at ORS 757.695(1), provides that in addition to comprehensive classifications, tariff schedules, rates and bill credits, the Commission may address the mitigation of energy burdens through bill reduction measures or programs such as demand response or weatherization.

### Analysis

#### *Background*

On May 24, 2021, HB 2475 was signed into law by Governor Brown. As a result of the passage of this law, the Commission is authorized to consider the mitigation of energy burdens in comprehensive classifications, tariff schedules, rates and bill credits, bill reduction measures and other programs. Practicably, utilities may now submit differential rates, including income-qualified discounts, to the Commission.

*Description of Expense*

On January 31, 2022, Cascade filed a request for authorization to defer costs and revenues associated with implementation and administration of 2021's House Bill 2475 for the twelve-month period beginning on March 1, 2022. The Company stated its intent to file a proposal providing for a bill discount program for eligible residential customers. Cascade requests authorization to defer the costs for administering such a bill discount program in the deferral account along with the revenue received to fund the program.

On June 1, 2022, Cascade made an advice filing utilizing the new provisions in HB 2475 and proposed the EDP.<sup>1</sup> The Commission, on its own motion, ordered the suspension for investigation (Docket UG 437) of the advice filing until no later than August 1, 2022. This docket is brought before the Commission concurrent with this application.

Also included in its initial filing under Docket No. 1409, Cascade submitted an amended petition to the Commission for an accounting order authorizing the Company to defer associated EDP costs to clarify accounting treatment and initial estimated costs to be associated with this deferral request. This amended request seeks authorization for a deferral for the twelve months beginning October 1, 2022, rather than March 1, 2022. Staff notes that the Company's intent was to track the costs associated with EDP benefits and administration to be contemporaneously recovered in its proposed AAC, Schedule 37.

*Staff position*

After reviewing PacifiCorp's, PGE's and Cascade's applications to defer costs and revenues associated with HB 2475, Staff found that all applications are nearly identical in principle and should be given the same treatment. As such, Staff's position in this docket mirrors Staff's position in the previous related dockets.

As noted in the Staff report on ADV 1409,<sup>2</sup> Staff does not support contemporaneous recovery of administrative costs associated with differential rate programs through an AAC at this time and has recommended exclusion of agency costs in Schedule 37 to maintain consistency with the direction provided to peer utilities. Staff has expressed that we expect there to be some trial and error in determining cost effective ways to reach out to energy-burdened customers and administer the programs and that our intent is not to disallow recovery of these costs in the early days of these programs.

Therefore, Staff finds that administrative costs may be included in this deferral but should be tracked separately from other HB 2475 deferred costs, if any and recommends the Commission require Cascade to establish a separate account to track

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<sup>1</sup> See Docket No. ADV 1409, and UG 437.

<sup>2</sup> See Commission Order No. 22-250, Appendix A at 21-22.

and defer incremental administrative costs from other non-direct assistance costs associated with its differential rate program.

Finally, Staff clarifies that the costs included in this deferral are only those incurred pursuant to HB 2475, which authorizes the Commission to approve rate mitigation measures or programs.

#### *Reason for Deferral*

Granting this deferral will minimize the frequency of rate changes and match appropriately the costs borne by, and benefits received by, customers, in accordance with ORS 757.259(2)(e).

#### *Proposed Accounting*

In its application, Cascade proposes the following treatment:

- Cascade initially proposed to record the deferred amount in account 242.9. In the amended application, the Company proposes to record the deferral amount as a regulatory asset in FERC Account 182.3 (Other Regulatory Assets), crediting various applicable FERC accounts.

Ordinarily, the deferred balance will accrue interest at the Company's effective authorized rate of return (ROR) and all amortized balances will accrue interest at the effective Modified Blended Treasury (MBT) rate. However, consistent with agreed-upon approach in the HB 2475 deferral dockets of several other utilities,<sup>3</sup> Staff believes that it is also appropriate for Cascade that all costs accrue interest at the modified blended treasury (MBT) rate. Cascade agrees and requested to use the MBT rate in its amended application.

#### *Estimate of Amounts*

Cascade's deferral application stated that the Company was working on the design of the low-income bill assistance program and could not estimate the amount of the total expected deferral. In its Docket ADV 1409 substitute filing in July 2022, Cascade estimates the deferred expense amount for the first year of EDP to be approximately \$1.1 million based on a 25 percent enrollment level. The Company estimates full enrollment could result in a total program cost of \$4.2 million per year.

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<sup>3</sup> *In the Matter of Portland General Electric Company*, Docket UM 2219, Order No. 22-101 (March 24, 2022); *In the Matter of PacifiCorp*, Docket UM 2223, Order No. 22-094 (March 24, 2022), *In the Matter of Northwest Natural*, Docket UM 2233, Order No. 22-113 (April 7, 2022).

*Information Related to Future Amortization*

- Earnings review – No earnings review will be applied to these deferral amounts due to the type of expenses being deferred and note the MBT is used as the interest rate.
- Prudence Review – A prudence review will be performed when updating the amounts for amortization as part of the AAC.
- Sharing – All prudently incurred costs are recoverable by Cascade with no sharing mechanism.
- Rate Spread/Design – Costs will be allocated when reviewing the AAC.
- Three Percent Test (ORS 757.259(6)) – The three percent would not apply because of the AAC.

Conclusion

Staff recommends the Commission authorize Cascade to defer of all costs and revenues incurred to implement and administer the EDP under HB 2475, subject to the following conditions:

- Incremental administrative costs will be separately deferred and tracked for later ratemaking.
- All costs would accrue interest at the modified blended treasury (MBT) rate.

Cascade has reviewed this memo and agrees with its content.

**PROPOSED COMMISSION MOTION:**

Approve Cascade's application to defer costs and revenues associated with implementation and administration of the EDP under HB 2475 for the twelve-month period beginning October 1, 2022.

Require Cascade to establish a separate account to track and defer incremental administrative costs associated with the EDP under HB 2475.