

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 2, 2024**

**REGULAR** \_\_\_\_\_ **CONSENT**  X  **EFFECTIVE DATE** \_\_\_\_\_  N/A

**DATE:** March 18, 2024

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

**THROUGH:** Bryan Conway and Russell Beitzel **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UM 2233(1))  
Reauthorization of deferral application to Defer Costs Associated with House Bill 2475.

**STAFF RECOMMENDATION:**

Approve Northwest Natural Gas Company's, dba Northwest Natural (NW Natural, NWN, or Company) application to defer costs and revenues associated with the Energy Affordability Act, for the 12-month period beginning on February 28, 2023, and ending on February 27, 2024.

Require NW Natural to maintain a separate account to track and defer incremental administrative costs associated with rate mitigation measures authorized under HB 2475(7)(1).

**DISCUSSION:**

Issue

Whether the Commission should approve the Company's request for authorization to defer accounting of costs associated with the Energy Affordability Act (House Bill 2475).

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.

ORS 757.259(2)(e). Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. In OAR 860-027-0300(3), the Commission has set forth the requirements for the contents of deferred accounting applications. Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Amounts deferred are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review. A review of the utility's earnings is required, unless subject to an automatic adjustment clause. With some exceptions, a company's amortization of amounts deferred cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. ORS 757.259(6).

ORS 757.230 provides the Commission 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.

ORS 757.695(1) provides that the Commission may address the mitigation of energy burdens through bill reduction measures or programs that may include, but are not limited to, demand response or weatherization.

The Commission first authorized deferral of the Company's expenses incurred to implement HB 2475 in Order No. 22-113, and directed the Company to establish a separate account to track and defer incremental administrative costs associated with rate mitigation measures authorized under HB 2475.

### Analysis

#### *Background*

The Company is seeking reauthorization to use deferred accounting pursuant to ORS 757.259 and OAR 860-027-0300, for the 12-month period beginning February 28, 2023, through February 27, 2024, for all expenses associated with

activities and programs developed pursuant to Oregon House Bill 2475, the Energy Affordability Act of 2021 (“HB 2475”).

The Company proposed to use a balancing account to track the costs and revenues associated with HB 2475 activities and programs. One such program is the Company’s Residential Bill Discount Program. In 2022, NW Natural received approval for, and launched, its low-income bill discount program and associated tariff change to facilitate cost recovery of the program.<sup>1</sup>

*Estimated 2023 Costs.*

The Company estimates the amount to be recorded in the deferred account for the cost of the bill discounts associated with the bill discount program for the 12-month period beginning February 28, 2023, through February 27, 2024, to be approximately \$6 million.

*Reason for Deferral*

ORS 757.259(2)(e) allows the deferral of identifiable utility expenses to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne and benefits received by customers.

*Proposed Accounting*

Beginning on February 28, 2023, and ending 12 months from this date, the Company proposes to account for the costs and revenues associated with HB 2475 activities and programs by recording them in a balancing account using Federal Energy Regulatory Commission Account 186.

*Information Related to Future Amortization*

- Earnings Review – Staff does not expect an earnings review to be necessary with recovery under an automatic adjustment clause as this deferral will provide for energy affordability.
- Prudence Review – A prudence review will be performed.
- Sharing – One hundred percent of the deferred costs are subject to utility recovery, pending prudence review.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral

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<sup>1</sup> Advice No. 22-02, Residential Low-Income Bill Discount Program (filed April 18, 2022), as amended by Advice No. 22-02A (filed July 6, 2022). At the public meeting on July 12, 2022, the Commission adopted Staff’s recommendation to approve NW Natural’s filing in the matter docketed as ADV 1390.

amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

### Conclusion

Based on discussions with the Company and Staff's review of NW Natural's application, Staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259(2)(e) and OAR 860-027-0300. This deferral will match appropriately the costs borne by and benefits received by customers and will minimize the frequency of rate change. Thus, Staff recommends the Commission authorize deferral of costs associated with HB 2475 for the 12-month period, beginning February 28, 2023, ending February 27, 2024, subject to the following conditions:

- Incremental administrative costs will be separately deferred and tracked for later ratemaking.
- Staff proposes that all costs continue to accrue interest at the modified blended treasury (MBT) rate.

The Company has reviewed a draft of this memo and voiced no concerns.

### **PROPOSED COMMISSION MOTION:**

Approve NW Natural's application request to defer costs associated with HB 2475 for the 12-month period beginning February 28, 2023, using the modified blended Treasury rate. Require NW Natural to maintain a separate account to track and defer incremental administrative costs associated with rate mitigation measures authorized under HB 2475(7)(1).