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August 15, 2022

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___ - NW Natural's Application for Authorization to Defer Costs of Compliance with the Climate Protection Program

In accordance with OAR 757.259 and OAR 860-027-0300, Northwest Natural Gas Company, dba NW Natural (NW Natural or the Company), files herewith its application for authorization to defer the costs of compliance with the Climate Protection Program.

A notice concerning this application will be sent to all parties participating in the Company's current 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
Telecopier: (503) 220-2579
Phone: (503) 610-7330
eFiling@nwnatural.com

If you have any questions, please contact me at (503) 610-7051.

Sincerely,

/s/ Kyle Walker, CPA

Kyle Walker, CPA
Rates/Regulatory Manager

Enclosures

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM _____

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba, NW NATURAL

For Authorization to Defer Costs of
Compliance with the Climate
Protection Program Pursuant to
ORS 757.259

**APPLICATION FOR
DEFERRED ACCOUNTING**

1 Northwest Natural Gas Company, d/b/a NW Natural (“NW Natural” or the
2 “Company”), requests authorization to defer for later ratemaking treatment the
3 costs and revenues that it will incur or collect to comply with the Climate
4 Protection Program (“CPP”) recently established by the Oregon Department of
5 Environmental Quality (“ODEQ”) and the Oregon Environmental Quality
6 Commission (“OEQC”). This application for deferred accounting treatment
7 (“Application”) is made pursuant to ORS 757.259(2)(e) and OAR 860-027-0300,
8 for the 12-month period beginning August 15, 2022 through August 14, 2023.

9 NW Natural is a public utility providing retail natural gas service in the
10 State of Oregon and is subject to the jurisdiction of the Commission regarding
11 rates, service, and accounting practices. NW Natural also provides retail natural
12 gas service in the State of Washington.

13 Communications regarding this Application should be addressed to:

14 ///

15 ///

1 NW Natural
2 e-Filing for Rates & Regulatory Affairs
3 250 SW Taylor Street
4 Portland, Oregon 97204-3038
5 Phone: (503) 610-7330
6 Facsimile: (503) 220-2579
7 Email: eFiling@nwnatural.com;

8
9 Ryan Sigurdson
10 Regulatory Attorney (OSB #201722)
11 250 SW Taylor Street
12 Portland, Oregon 97204-3038
13 Phone: (503) 610-7618
14 Email: ryan.sigurdson@nwnatural.com;

15
16 and

17
18 Kyle Walker, CPA
19 Manager, Rates & Regulatory Affairs
20 250 SW Taylor Street
21 Portland, Oregon 97204-3038
22 Phone: (503) 610-7051
23 Email: kyle.walker@nwnatural.com
24

25 I. BACKGROUND

26 On December 16, 2021, the ODEQ adopted the CPP, which are
27 administrative rules that set GHG reduction targets.¹ The CPP sets a declining
28 limit, or cap, on greenhouse gas emissions from fossil fuels used throughout the
29 state of Oregon, including diesel, gasoline, natural gas and propane, used in
30 transportation, residential, commercial and industrial settings (the program is not
31 inclusive of fossil fuel used in electric generation)². The CPP also regulates site-
32 specific greenhouse gas emissions at large stationary sources, such as

¹ OAR 340-271-0010 – 9000.

² OAR 340-271-0110.

1 emissions from industrial processes.³ The program baseline is set at average
2 greenhouse gas emissions from covered entities from years 2017-2019.⁴
3 Reductions from this baseline are set at 50 percent by 2035 and 90 percent by
4 2050.⁵

5 As a natural gas local distribution company, NW Natural is a “covered fuel
6 supplier”⁶ under the CPP and is the point of regulation for the emissions
7 associated with gas used by its sales and transport customers.⁷ Transport
8 schedule customers purchase the commodity they use directly from marketers
9 and suppliers and have historically only paid NW Natural for delivery via the
10 distribution system.

11 Covered entities’ emissions are reported annually through the existing
12 DEQ greenhouse gas reporting program⁸ and compliance will be demonstrated
13 by each covered entity at the end of each three-year compliance period.⁹ To
14 comply, covered entities like NW Natural can work to reduce usage through
15 efficiency measures, introduce renewable and low carbon alternative fuels, trade

³ OAR 340-271-0310.

⁴ Rulemaking, Action Item A, Greenhouse Gas Emissions Program 2021 Rulemaking Climate Protection Program, at 8 (Dec. 16, 2021), available at: https://www.oregon.gov/deq/EQCdocs/121621_ItemA.pdf.

⁵ *Id.*

⁶ OAR 340-271-0020(15)

⁷ OAR 340-271-0110(4). There is an exclusion for natural gas not used for combustion, as well as several other exclusions per OAR 340-271-0110(4)(b)(B).

⁸ OAR 340-215.

⁹ OAR 340-271-0440.

1 for additional compliance instruments with other covered entities, or purchase a
2 limited amount of Community Climate Investments (“CCIs”).¹⁰

3 NW Natural respectfully requests approval authorizing the deferral for
4 future ratemaking treatment of the costs and revenues of complying with the
5 CPP, which are not currently included in rates. While the CPP has only been in
6 effect for several months, NW Natural must increase its planning activities to
7 determine how it will comply and based on those activities, take actions to lower
8 its covered emissions. In addition, the CPP allows covered fuel suppliers to
9 trade compliance instruments among themselves.¹¹ Although it is currently
10 uncertain how a CPP compliance instrument market will develop, a deferral will
11 give NW Natural the opportunity to recover the costs and revenues of any
12 compliance instruments that it may acquire from or sell to other covered fuel
13 suppliers.

14 II. APPLICATION

15 ORS 757.259 empowers the Commission to authorize the deferral of costs
16 or revenues of a public utility for later inclusion in rates.¹² The Commission has
17 established rules implementing this statute in OAR 860-027-0300, including
18 specific requirements for deferred accounting applications—each of which is
19 addressed in turn, below.

¹⁰ OAR 340-271-0450.

¹¹ OAR 340-271-0500.

¹² 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.”).

1 **A. Description of the Expenses to be Deferred – OAR 860-027-**
2 **0300(3)(a).**

3 The Company is seeking to defer the costs and revenues that it will incur
4 to comply with the CPP, as summarized above, during the 12-month deferral
5 period (August 15, 2022 to August 14, 2023). These costs will include increased
6 planning activities (e.g. studies, audits, etc.), enhanced energy efficiency
7 measures for all customers, renewable and low carbon alternative fuels, trade for
8 additional compliance instruments with other covered entities, and/or purchase a
9 limited amount of CCIs

10 NW Natural is not seeking a prudence determination of any costs or
11 revenues in this Application. Rather, if deferred accounting is approved, NW
12 Natural will seek a prudence determination of these costs or revenues in future
13 cost recovery proceedings.

14 **B. Reasons Deferred Accounting is Requested – OAR 860-027-**
15 **0300(3)(b).**

16 ORS 757.259 is a “statutorily authorized exception to the general
17 prohibition against retroactive ratemaking” that “empowers the Commission to
18 authorize the deferral of capital project costs, including depreciation expense and
19 financing costs,” as well as a utility’s other expenses and revenues.¹³

20 As specifically relevant to this Application, ORS 757.259(2)(e) grants the
21 Commission discretion to authorize a deferral in order to minimize “the frequency

¹³ *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).

1 of rate changes . . . or to match appropriately the costs borne by and benefits
2 received by ratepayers.” The Commission applies “a flexible, fact-specific
3 approach that acknowledges the wide range of reasons why deferred accounting
4 might be beneficial to customers.”¹⁴ Deferring the costs of CPP compliance
5 aligns the program’s costs and benefits, consistent with ORS 757.259(2)(e)’s
6 matching principle. Granting this deferral will also give NW Natural the
7 opportunity to later demonstrate that the costs it has incurred are prudent and
8 can be recovered in rates, which will minimize the frequency of rate changes.
9 Without deferred accounting treatment, NW Natural would face the possibility of
10 incurring prudent and necessary costs to comply with a state-mandated program
11 with no possibility of cost recovery.

12 **C. Accounting Treatment of Expenses With and Without Deferred**
13 **Accounting – OAR 860-027-0300(3)(c).**

14 Beginning on August 15, 2022, and ending 12 months from this date, NW
15 Natural proposes to account for the costs associated with the CPP by recording
16 the deferral in a FERC 186 account. In the absence of approval of deferred
17 accounting, NW Natural would record the amounts in several accounts affecting
18 the Company’s income statement and balance sheet.

19 **D. Estimation of the Amounts Subject to Deferral – OAR 860-027-**
20 **0300(3)(d).**

21 Given that the CPP was recently adopted, NW Natural does not have an
22 estimate of what amounts will be recorded in the CPP deferral account for the

¹⁴ Order No. 05-1070 at 5.

1 upcoming 12-month period. In 2020, the Commission opened a docket to
2 analyze those cost impacts even before the CPP was adopted by the Oregon
3 Environmental Quality Commission.¹⁵ As part of this docket, NW Natural
4 performed preliminary modeling on how it will comply with the CPP.¹⁶ This
5 modeling was performed prior to the finalization of CPP rules and, due to the
6 compressed timeframe of the docket, does not have the same level of detail as
7 an Integrated Resource Plan. NW Natural will be filing its Integrated Resource
8 Plan on September 23, 2022.

9 **E. Notice of the Application for Deferred Accounting – OAR 860-027-**
10 **0300(3)(e).**

11 OAR 860-027-0300(3)(e) requires NW Natural to provide a copy of the
12 notice of application for deferred accounting and list those persons served with
13 the notice. Notice must be served on all persons who were parties in the
14 Company's last general rate case.¹⁷

15 A notice of this Application has been served to all parties who are
16 participating in the Company's current general rate case, docket UG 435. A copy
17 of this notice is attached to this Application.

¹⁵ *In the Matter of Oregon Public Utility Commission Staff Natural Gas Fact Finding per Executive Order 20-04 PUC Year One Work Plan*, Docket UM 2178 (2021).

¹⁶ See <https://edocs.puc.state.or.us/efdocs/HAC/um2178hac10454.pdf>.

¹⁷ OAR 860-027-0300(6).

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III. CONCLUSION

NW Natural respectfully requests that the Commission issue an order authorizing the Company to defer the amounts described in this Application, beginning on August 15, 2022.

Dated this 15th day of August 2022.

Respectfully Submitted,

NW NATURAL

/s/ Kyle Walker, CPA
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UM_____

NOTICE OF APPLICATION FOR AUTHORIZATION TO DEFER COSTS OF COMPLIANCE WITH THE CLIMATE PROTECTION PROGRAM

August 15, 2022

To All Parties Participating in UG 435

Please be advised that on August 15, 2022, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for AUTHORIZATION TO DEFER COSTS OF COMPLIANCE WITH THE CLIMATE PROTECTION PROGRAM.

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

* * * * *



CERTIFICATE OF SERVICE

I hereby certify that on August 15, 2022, I have served by electronic mail the foregoing NOTICE OF APPLICATION FOR AUTHORIZATION TO DEFER COSTS OF COMPLIANCE WITH THE CLIMATE PROTECTION PROGRAM upon all parties of record for NW Natural's current general rate case, UG 435.

UG 435

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DATED August 15, 2022, Portland, OR.

/s/ Erica Lee-Pella
Erica Lee-Pella
Rates & Regulatory Affairs, NW Natural