



COLE ALBEE
Main (503) 595-3922
cole@mrg-law.com

January 2, 2024

VIA E-MAIL TO

Public Utility Commission of Oregon
Filing Center
201 High Street SE, Suite 100
Salem, Oregon 97301-3398

**Re: Docket UM ___ - Northwest Natural Gas Company's Application for
Authorization to Defer Certain Costs Associated with the Meter
Modernization Program Pursuant to ORS 757.259**

Attached, please find a courtesy copy of the Northwest Natural Gas Company's Application for Deferred Accounting.

Please contact this office with any questions.

Sincerely,

A handwritten signature in blue ink that reads "Cole Albee". The signature is written in a cursive style and is positioned above a solid horizontal line.

Cole Albee
Paralegal
McDowell Rackner Gibson PC

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM _____

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba, NW Natural,

Application for Authorization to Defer
Certain Costs Associated with the Meter
Modernization 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”), hereby requests authorization to defer for later ratemaking treatment
3 operations and maintenance (“O&M”) costs associated with the Company’s Meter
4 Modernization Program (“MMP”). This application for deferred accounting treatment
5 (“Application”) is made pursuant to ORS 757.259(2)(e) and OAR 860-027-0300, for the
6 12-month period beginning January 1, 2024 through December 31, 2024.¹ NW Natural
7 respectfully requests that the Commission act on this Application by March 1, 2024, to
8 facilitate the implementation of the MMP as described more fully below.

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

13 Communications regarding this Application should be addressed to:

¹ As detailed below, the MMP is a multi-year program. However, consistent with the requirements of ORS 757.259(4), this application is limited to the O&M expense incurred during the first 12 months. If approved, NW Natural intends to seek a renewal of deferral authority until the four-year term for the MMP is complete, thereby reflecting all of the anticipated O&M costs for the program described below.

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

8 Eric Nelsen
9 Senior Regulatory Attorney (OSB #192566)
10 250 SW Taylor Street
11 Portland, Oregon 97204-3038
12 Phone: (503) 610-7618
13 Email: Eric.Nelsen@nwnatural.com; and

14 Kyle Walker, CPA
15 Senior Manager, Rates & Regulatory Affairs
16 250 SW Taylor Street
17 Portland, Oregon 97204-3038
18 Phone: (503) 610-7051
19 Email: Kyle.Walker@nwnatural.com

20 **I. BACKGROUND**

21 NW Natural operates a metering system containing a mix of residential,
22 commercial, and industrial meters. The meters are located on the premises of the
23 customer, and system-wide are a mix of diaphragm, rotary, and turbine meters, which are
24 all mechanical meters.² Having fully functional metering equipment is a utility best
25 practice and key to ensuring accurate billing. NW Natural’s metering equipment is an
26 essential component of the Company’s system, and thus must work properly.

27 NW Natural has an immediate need to replace portions of its aging metering
28 system, and is embarking on a multi-year process to replace metering infrastructure
29 nearing end of life—including both Periodic Cause for Change (“PCC”) meters, which are

² Although there are other technology options, in the form of ultrasonic meters, there are currently only four ultrasonic meters in service, which are used in commercial applications.

1 meter families that have been tested and are determined to run fast, and end-of-life
2 Encoder Receiver Transmitter (“ERT”) devices. In particular, the MMP is a four-year
3 program from 2023 to 2027 that has been designed to maximize cost-efficiency and
4 mitigate long delays in procurement arising from supply chain issues by first depleting
5 NW Natural’s existing stock of mechanical meters with ERTs attached, fulfilling existing
6 purchase orders, and then strategically implementing a new metering technology—
7 ultrasonic meters—in select areas that will benefit most from the new technology.
8 Additionally, the current meter reading software system—Field Collection System
9 (“FCS”)—requires updating. The four primary components of the MMP are as follows:

- 10 • ERT Replacement: Due to ERTs in the Company’s service territory
11 reaching the end of their 20-year battery life, a replacement program is
12 needed for approximately 500,000 ERTs over the coming four-year period
13 (2023 through 2027). NW Natural will continue utilizing current technology
14 (500G ERTs).
- 15 • PCC Meter Replacement: As part of the PCC meter replacement program,
16 NW Natural will exhaust the current mechanical meter inventory (including
17 purchase order commitments) and selectively place ultrasonic meters with
18 shutoff capability where they have the potential to improve safety. NW
19 Natural needs to change out approximately 100,000 PCC identified meters
20 over the coming four-year period (2023 through 2027).
- 21 • FCS Replacement with Temetra: The current meter reading software in
22 use, FCS, is being retired by the vendor, Itron, meaning that it will not be
23 supported beyond 2026-2027. As part of the MMP, NW Natural will upgrade

1 to the new technology to ensure meter reading continuity and appropriately
2 utilize the ultrasonic meter technology.

- 3 • Installation of Ultrasonic Meters. NW Natural will gradually begin adding
4 ultrasonic meters to its meter complement. The plan to use a combination
5 of ultrasonic meters and mechanical meters will allow the Company to make
6 use of its existing inventory and committed contracts while taking steps
7 towards diversifying its metering system.

8 Transitioning the Company's aging metering system to ultrasonic meters will
9 provide the following key benefits: (1) increasing meter diversification and preparing for
10 an eventual transition away from mechanical meters; (2) mitigating supply chain issues
11 where lead times for ultrasonic meters are 30 weeks compared to 85 weeks for
12 mechanical meters, (3) taking advantage of safety-related benefits unique to ultrasonic
13 meters, such as automatic high temperature and high flow shut off, additional tamper
14 alarms, open pipe alerts, and smaller/lighter meter size reducing field worker injuries; and
15 (4) reduction of ERT purchasing needs due to ultrasonic meters not requiring separate
16 ERT components.

17 Ultrasonic meters also provide operational benefits as compared to their
18 mechanical meter counterparts. Ultrasonic meters are more precise and are less likely
19 to drift and require re-calibration; contain self-diagnostic equipment; and are also
20 approximately 70 percent smaller than the mechanical meters, which allows more
21 flexibility in storage and shipping as well as increased ability to optimize multi-family
22 installs with smaller meters sets.

1 For the above reasons, implementation of the MMP will provide important and
2 extensive improvements to NW Natural's metering fleet, advancing the Company's
3 analytical capability, operational efficiency, and safety and risk management capabilities.

4 II. APPLICATION

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

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

10 The MMP will involve a significant amount of limited duration O&M expense
11 incurred over the four-year term of the project. Because the O&M expense will only be
12 incurred during the term of the MMP, and will include an initial ramp up at the beginning
13 of the project and a ramp down at the end of the project, the Company does not propose
14 building this O&M expense into base rates at this time. As a result, NW Natural seeks
15 to defer approximately \$14.2 million in incremental O&M costs. The preliminary estimate
16 for Oregon-allocated costs that cannot be capitalized and are included within the O&M
17 deferral include the following categories:

- 18 i) Meter and ERT replacement: \$5.0 million. Southern Cross' installation labor
19 costs for approximately 30 field-techs and supporting positions working across
20 NW Natural's service territory to replace PCC meters and end-of-life ERTs.
- 21 ii) ERT and PCC Hardware Recycling: \$2.6 million: Shipping and recycling
22 approximately 400,000 lithium-ion batteries in ERTs and shipping, testing, and
23 recycling of approximately 90,000 PCC meters and ERTs. Due to the materials

1 in meters and ERTs, we cannot “dispose” of these items without environmental
2 impact and must do so in accordance with applicable regulations.

3 iii) Incremental Non-field Labor: \$4.1 million: Includes incremental resource costs
4 (non-field) to support the MMP. These positions will provide support in
5 customer call support with increased customer touch points, scheduling
6 support, billing support, internal change communication, external
7 communications, quality assurance inspection of installations, meter shop
8 support, and support in deploying field techs for change outs. Each of these
9 roles carries an incremental burden for the project due to the elevated number
10 of ERT and meter change outs required during the coming four-year period.
11 The resources identified will be backfilled during the duration of the project to
12 allow for continued operations of business-as-usual work with additional
13 contractor support from Ernst and Young.

14 iv) Other external expenses: \$0.54 million. Includes bill inserts and door hangers
15 related to the socialization of MMP to our customer base. Due to the increased
16 presence of field workers during the four-year deployment, we will need to
17 inform customers of the reasoning for trucks and field technicians being in their
18 neighborhoods.

19 The above figures reflect NW Natural’s best understanding of the anticipated
20 O&M costs to implement the MMP. To be clear, NW Natural is not seeking a prudence
21 determination of these costs in this Application. Rather, if deferred accounting is
22 approved, NW Natural will seek a prudence determination of these costs in a future rate
23 case that reviews the prudence of the entirety of the project.

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

2 ORS 757.259 is a “statutorily authorized exception to the general prohibition
3 against retroactive ratemaking” that allows a “means to address utility expenses or
4 revenues outside of the utility’s general rate case proceeding.”³ As specifically relevant
5 to this Application, ORS 757.259(2)(e) grants the Commission discretion to authorize a
6 deferral of “[i]dentifiable utility expenses or revenues, the recovery or refund of which the
7 commission finds should be deferred in order to minimize the frequency of rate changes
8 . . . or to match appropriately the costs borne by and benefits received by ratepayers.”
9 The Commission applies “a flexible, fact-specific approach” to determining whether
10 deferred accounting meets either prong of this two-part test.⁴

11 Here, deferred accounting treatment is appropriate because it will both minimize
12 the frequency of rate changes and match appropriately the costs borne by, and benefits
13 received by, ratepayers. Without deferred accounting treatment, NW Natural would face
14 the possibility of incurring approximately \$14.2 million in prudent and necessary
15 expenses with no possibility of cost recovery. Moreover, deferring the O&M costs for the
16 MMP for recovery after the project is complete will also align the project’s costs and
17 benefits, consistent with ORS 757.259(2)(e)’s matching principle. Thus, NW Natural’s
18 application for deferred accounting meets the necessary statutory criteria for deferral at
19 the Commission’s discretion.

20 In determining whether to exercise its discretion and approve a deferred
21 accounting application, this Commission considers (1) whether the expense was

³ *In re Pub. Util. Comm’n of Or. Staff Request to Open Investigation Related to Deferred Accounting*,
Docket UM 1147, Order No. 05-1070 at 2 (Oct. 5, 2005).

⁴ Order No. 05-1070 at 5.

1 foreseeable and therefore could have been modeled in rates; and (2) whether the
2 expense is “significan[t].”⁵ Here, the MMP was foreseen, but was appropriately *not*
3 included in base rates. Importantly, the O&M costs for the MMP do not represent
4 ongoing, annual expenses that will be recovered year after year in a continuous manner.
5 Rather, the Company seeks deferred account treatment for the significant one-time O&M
6 expenses associated with developing and implementing the MMP over the discrete, four-
7 year term of the project.

8 Moreover, the O&M expenses associated with implementing the MMP—
9 approximately \$14.2 million over the term of the project—are significant, meaning that
10 the inability to recover these costs would seriously undermine the Company’s ability to
11 earn near its authorized rate of return (“ROR”). Absent a regulatory deferral, NW Natural
12 would be required to internalize the entirety of these costs. Such an outcome would
13 unjustly penalize NW Natural for pursuing crucial modernization of its metering fleet to
14 provide safe and reliable customer service.

15 For the above reasons, NW Natural’s proposed deferred accounting treatment in
16 this case is consistent with Commission policy for recovery of significant, discrete O&M
17 expenses.

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

20 Beginning on January 1, 2024, and ending twelve months from this date,
21 NW Natural proposes to account for the expenses incurred as a result of the MMP’s
22 O&M implementation costs on the Company’s balance sheet, to be later included in

⁵ Order No. 05-1070 at 7 (stating that the utility seeking deferred accounting treatment “bears the burden of identifying the event [triggering the application] and showing its significance”).

1 customer rates. In the absence of deferred accounting, NW Natural would record O&M
2 costs associated with the implementation of the MMP in the Federal Energy Regulatory
3 Commission (“FERC”) 878 expense account (Meter and House Regulator Expenses),
4 FERC 382 expense account (Meter Installation), or FERC 384 expense account (House
5 Regulator Installations) as appropriate. NW Natural proposes to track and defer these
6 costs for review in a subsequent rate proceeding.⁶ These amounts would not be subject
7 to capitalization under the FERC accounting guidelines and relevant orders.

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

9 As described above, NW Natural anticipates incurring approximately \$14.2 million
10 in MMP O&M implementation expenses by December 2027.

11 **E. Notice of the Application for Deferred Accounting – OAR 860-027-
12 0300(3)(e).**

13 OAR 800-027-0300(3)(e) requires NW Natural to provide a copy of the notice of
14 application for deferred accounting and list those persons served with the notice. Notice
15 must be served on all persons who were parties in the Company’s last general rate
16 case.⁷

17 Here, a notice of this Application has been served to all parties that participated
18 in the Company’s last recent general rate case, docket UG 435. A copy of this notice is
19 attached to this Application as Exhibit A.

⁶ Pursuant to Commission Order No. 08-263, NW Natural will apply an interest rate based in the most recently authorized ROR to this account. See *In re Deferred Accounting Investigation*, Docket UM 1147, Order No. 08-263 at 1 (May 22, 2008) (noting that, “[h]istorically, a utility’s deferred accounts have earned interest based on that utility’s authorized rate of return (AROR),” before establishing a modified interest rate for deferred accounts during the amortization period).

⁷ OAR 860-027-0300(6).

1
2
3
4
5

III. CONCLUSION

NW Natural respectfully requests that the Commission issue an order authorizing the Company to defer the amounts described in this Application associated with the implementation O&M costs of the MMP, beginning on January 1, 2024.

Dated this 2nd day of January, 2024.

Respectfully submitted,

NW NATURAL

/s/ Kyle Walker
Kyle Walker, CPA
Rates/ Regulatory Senior Manager

UM _____

Exhibit A

to

**NW Natural's Application for Authorization to Defer Certain Costs Associated with
the Meter Modernization Program Pursuant to ORS 757.259**

Notice of Application



BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM ____

**Northwest Natural Gas Company's Application for Authorization to Defer Certain
Costs Associated with the Meter Modernization Program Pursuant to
ORS 757.259**

January 2, 2024

To All Parties Who Participated in UG 435

Please be advised that on January 2, 2024, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for an Application for Deferred Accounting.

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 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, OR 97204
Telephone: (503) 610-7051

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
PO Box 1088
Salem, Oregon 97308-1088 Telephone:
(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.

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of Northwest Natural Gas Company's **Application for Authorization to Defer Certain Costs Associated with the Meter Modernization Program Pursuant to ORS 757.259** on the parties to Docket UG 435, Northwest Naturals' Request for a General Rate Revision, to the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

UG 435 Service List

Stephanie S. Andrus
Oregon Department of Justice
Business Activities section
1162 Court St. NE
Salem, OR, 97301-4096
stephanie.andrus@doj.state.or.us

Mathew Muldoon
Public Utility Commission of Oregon
P.O. Box 1088
Salem, Or, 97308-1088
Matt.muldoon@puc.oregon.gov

Diane Henkels
Small Business Utility Advocates
621 SW Morrison St. Ste. 1025
Portland, OR, 97205
diane@utilityadvocates.org

James Birkelund
Small Business Utility Advocates
548 Market St. Ste. 11200
San Francisco, CA, 94104
james@utilityadvocates.org

Danny Kermodé
5553dkcpa@gmx.us

Eric Nelsen
Northwest Natural
250 SW Taylor St.
Portland, OR, 97204
Eric.nelsen@nwnatural.com
efiling@nwnatural.com

McDowell Rackner Gibson PC
419 SW 11th Ave Ste. 400
Portland, OR 97205
dockets@mrq-law.com

Jocelyn Pease
McDowell Rackner Gibson PC
419 SW 11th Ave, Ste. 400
Portland, OR 97205
jocelyn@mrq-law.com
dockets@mrq-law.com

Kristen L. Boyles
EarthJustice
810 Third Ave Ste. 610
Seattle, WA, 98104
kboyles@earthjustice.org

Adam Hinz
EarthJustice
810 Third Ave Ste. 610
Seattle, WA, 98104
ahinz@earthjustice.org

Jaimini Parekh
EarthJustice
810 Third Ave Ste. 610
Seattle, WA, 98104
jparekh@earthjustice.org

Michael Goetz
Oregon Citizens Utility Board
610 SW Broadway Ste. 400
Portland, OR, 97205
mike@oregoncub.org
dockets@oregoncub.org

Tommy A. Brooks
Cable Huston LLP
1455 SW Broadway Ste. 1500
Portland, OR, 97201
tbrooks@cablehuston.com

Edward Finklea
Alliance of Western Energy Consumers
545 Grand View Dr.
Ashland, OR, 97520
efinklea@awec.solutions

Chad M. Stokes
Cable Huston LLP
1455 SW Broadway Ste. 1500
Portland, OR, 97201
cstokes@cablehuston.com

Carra Sahler
Lewis & Clark Law School
10101 S Terwilliger Blvd.
Portland, OR, 97219
sahler@lcark.edu

Dated this 2nd day of January 2024.



Cole Albee
McDowell Rackner Gibson PC
419 SW 11th Avenue, Suite 400
Portland, OR 97205
Tel: (503) 595-3922
cole@mrq-law.com