



250 SW Taylor Street
Portland, OR 97204

503-226-4211
nwnatural.com

May 14, 2024

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 Associated with a Residential and Small Commercial Demand Response Program

In accordance with OAR 757.259 and OAR 860-027-0300, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), files herewith an application for authorization to defer for later ratemaking treatment costs associated with developing, implementing, and evaluating a demand response program for its residential and small commercial customers.

A notice concerning this application will be sent to all parties who participated in the Company's last completed 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@hwnatural.com

If you have any questions, please contact me at (503) 610-7074.

Sincerely,

/s/ Natasha Siores

Natasha Siores
Rates/Regulatory Senior 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
Associated with a Residential and
Small Commercial Demand
Response 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 costs associated with developing, implementing, and evaluating a demand response
4 program for its residential and small commercial customers. This application for
5 deferred accounting treatment (“Application”) is made pursuant to ORS
6 757.259(2)(e) and OAR 860-027-0300, for the 12-month period beginning the date
7 of this filing.

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

12 Communications regarding this Application should be addressed to:

13 ///

14 ///

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 Fax: (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) 610-7570
14 Email: ryan.sigurdson@nwnatural.com;

15
16 and

17
18 Kyle Walker, CPA
19 Senior 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 I. BACKGROUND

25 In NW Natural’s 2022 IRP, docketed as LC 79, the Company included an
26 action item focused on a potential new “non-pipeline solution” system capacity and
27 distribution system planning tool, aimed at reducing load during high demand
28 periods through a demand response program for residential and small commercial
29 customers. Specifically, the Action Plan included the following:

30 “Scope a residential and small commercial demand response program to
31 supplement our large commercial and industrial programs and file by 2024.”

32 Staff recommended acknowledgement of the action item, which the
33 Commission did in Order No. 23-281.¹ Order No. 23-281 also strongly encouraged

¹ *In the Matter of NW Natural Gas Company, dba NW Natural, 2022 Integrated Resource Plan, Docket No. LC 79, Order No. 23-281 at 16 (Aug. 2, 2023).*

1 NW Natural to pursue locational demand response programs to minimize system
2 upgrades where appropriate.² Per the order, NW Natural is first pursuing a
3 systemwide residential and small commercial demand response program and
4 intends to file a status update with the IRP update later this year. NW Natural then
5 intends to pursue development of locational demand response programs consistent
6 with Commission direction. This Application seeks to defer the costs of both
7 programs.

8 The Commission conditioned its acknowledgement of a systemwide
9 residential and small commercial demand response program “on NW Natural
10 providing a discussion of how its general demand response will interact with and
11 support future locational demand response programs.”³ Since these programs are
12 still under development, the Company believes it would be premature to fully discuss
13 how they would interact at this time. The systemwide program, however, would be
14 available to all residential and small commercial customers and is intended to
15 reduce demand at the system level to mitigate or avoid service disruptions when
16 extreme weather events occur or when gas prices in the market are extremely high.
17 Separately, NW Natural will pursue developing geographically targeted programs
18 focused on eligible customers in specific areas, where NW Natural’s distribution
19 capacity is projected to be constrained in the near future. This geographically
20 targeted program would seek to test demand response as a non-pipeline alternative
21 to lower peak demand in order to avoid or defer the need for distribution system

² *Id.* at 14. (“We take very seriously the company’s continuing obligation to maintain safe and reliable service, and at the same time we expect companies to take very seriously our expectation that they mitigate growth where they reasonably can avoid distribution system capital investments.”).

³ *Id.* at 16.

1 expansion in a localized area. NW Natural plans to provide further details on how
2 these two programs interact in subsequent filings.

3 **II. APPLICATION**

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

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

10 The Company is planning to defer costs associated with developing,
11 implementing, and evaluating a demand response program for its residential and
12 small commercial customers. Specifically, NW Natural plans to hire two different
13 vendors. The first vendor will design and implement the demand response program,
14 which the Company currently envisions as initially including a “Bring-Your-Own-
15 Thermostat (BYOT)” offering where residential and small commercial customers
16 may voluntarily choose to enroll in the program. Participating customers will agree
17 to allow NW Natural to lower their existing smart thermostat setpoints by several
18 degrees in exchange for an incentive. The second vendor will provide independent
19 evaluation, measurement and verification of load and energy savings from this
20 systemwide program. The Company is also seeking to defer administrative,
21 customer communication and marketing engagement, and IT&S costs associated
22 with developing the program. NW Natural also seeks to defer the costs associated
23 with locational demand response programs. These costs will include higher

1 incentive payments to customers in targeted areas to boost program enrollment and
2 mitigate attrition of participants in the program. Combined, NW Natural estimates
3 that approximately \$1.0-\$1.5 million will be deferred over the 12-month deferral
4 period.⁴ This figure is an estimate and reflects NW Natural’s best understanding of
5 the anticipated costs to date. The figure will be refined further once NW Natural
6 hires the vendors and further develops the program.

7 NW Natural is not seeking a prudence determination of these costs in this
8 Application nor is it requesting cost recovery. Rather, if deferred accounting is
9 approved, NW Natural will seek a prudence determination of these costs at the time
10 the Company requests amortization and inclusion in customer rates.

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

12 ORS 757.259 is a “statutorily authorized exception to the general prohibition
13 against retroactive ratemaking” that allows a “means to address utility expenses or
14 revenues outside of the utility’s general rate case proceeding.”⁵ As specifically
15 relevant to this Application, ORS 757.259(2)(e) grants the Commission discretion to
16 authorize a deferral of “[i]dentifiable utility expenses or revenues, the recovery or
17 refund of which the commission finds should be deferred in order to minimize the
18 frequency of rate changes . . . or to match appropriately the costs borne by and
19 benefits received by ratepayers.” The Commission applies “a flexible, fact-specific

⁴ The Company will allocate system costs to Oregon via the firm sales volumes allocation factor from our most recent results of operations (RG 40).

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

1 approach” to determining whether deferred accounting meets either prong of this
2 two-part test.⁶

3 Here, deferred accounting treatment is appropriate because it will both
4 minimize the frequency of rate changes and match appropriately the costs borne by
5 and benefits received by ratepayers. Without deferred accounting treatment,
6 NW Natural would face the possibility of incurring approximately \$1.0-\$1.5 million in
7 prudent and necessary Oregon-allocated expenses with no possibility of cost
8 recovery. Moreover, deferring the costs of the demand response program for
9 recovery will align the project’s costs and benefits, consistent with the
10 ORS 757.259(2)(e) matching principle. Thus, NW Natural’s Application for Deferred
11 Accounting meets the necessary statutory criteria for deferral at the Commission’s
12 discretion.

13 In determining whether to exercise its discretion and approve a deferred
14 accounting application, this Commission considers (1) whether the expense was
15 foreseeable and therefore could have been modeled in rates; and (2) whether the
16 expense is “significant[t].”⁷ This demand response program was foreseen—and,
17 indeed, described and acknowledged—in NW Natural’s 2022 IRP, but was
18 appropriately *not* included in base rates due to its ongoing development and one-
19 time start-up costs, but costs of such programs were not yet explored.

20 Moreover, absent a regulatory deferral, NW Natural would be required to
21 internalize the entirety of these significant costs. Such an outcome would unjustly

⁶ Order No. 05-1070 at 5.

⁷ 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 penalize NW Natural for pursuing a novel demand-side management program.
2 Developing a demand response program benefits customers from a system
3 perspective because it reduces the amount of natural gas NW Natural must acquire
4 during high demand periods, reduces the capacity resource requirements needed to
5 serve its design system peak, and helps mitigate or avoid service disruptions when
6 extreme weather events or supply disruptions occur. In incorporating geographical
7 targeted demand response into its program, customers additionally benefit from the
8 avoidance and/or reduction in scope of distribution system projects.

9 NW Natural’s proposed deferred accounting treatment in this case is
10 consistent with Commission precedent for recovery of the significant costs
11 associated with the development of NW Natural’s geographically targeted demand
12 response pilot.⁸ In addition, the Commission has also approved deferred accounting
13 treatment associated with the incremental costs for Portland General Electric
14 Company’s (“PGE”) Automated Demand Response Pilot (“ADR Pilot”)⁹, two other
15 Residential Demand Response Pilots,¹⁰ and a Demand Response Testbed Pilot.¹¹

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

18 Beginning on the date of this filing, and ending 12 months from this date, NW
19 Natural proposes to account for the expenses incurred as a result of a systemwide

⁸ *In the Matter of Northwest Natural Gas Company, dba NW Natural, Application for Reauthorization to Defer Costs or Revenues Associated with Phase 3 GeoTEE Pilot Program*, Docket No. UM 2155, Order No. 22-330 (Sept. 8, 2022).

⁹ *In the Matter Portland General Electric Company, Application for Reauthorization of Deferral of Incremental Costs Associated with Automated Demand Response*, Docket No. UM 1514, Order No. 20-479 (2020).

¹⁰ See OPUC Docket UM 1708.

¹¹ See OPUC Docket UM 1976

1 demand response program for residential and small commercial customers the
2 Company's balance sheet, to later be included in customer rates. In the absence of
3 approval of deferred accounting, NW Natural would record these costs in FERC 909
4 expense accounts. NW Natural proposes to track and defer these costs for later
5 inclusion in rates.¹²

6 **D. Estimation of the Amounts Subject to Deferral – OAR 860-027-**
7 **0300(3)(d).**

8 As described above, NW Natural anticipates incurring approximately \$1.0-
9 \$1.5 million in costs during the 12-month deferral period.

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

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

16 Here, a notice of this Application has been served to all parties who
17 participated in the Company's last completed general rate case, docket UG 435. A
18 copy of this notice is attached to this Application.

¹² 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 Docket UM 1147, Order No. 08-263 at 1 (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).

¹³ OAR 860-027-0030(6).

1 **III. CONCLUSION**

2 NW Natural respectfully requests that the Commission issue an order
3 authorizing the Company to defer the amounts described in this Application
4 associated with developing a demand response program for its residential and small
5 commercial customers.

6 Dated this 14th day of May 2024.

7 Respectfully Submitted,

8 NW NATURAL

9 /s/ Kyle Walker, CPA

10 Kyle Walker, CPA

11 Rates/Regulatory Senior Manager

12 /s/ Ryan Sigurdson

13 Ryan Sigurdson

14 Regulatory Attorney (OSB #201722)

15 250 SW Taylor Street

16 Portland, Oregon 97204-3038

17 Phone: (503) 610-7570

18 Email: ryan.sigurdson@nwnatural.com
19



**NOTICE OF APPLICATION FOR AUTHORIZATION TO DEFER COSTS
ASSOCIATED WITH A RESIDENTIAL AND SMALL COMMERCIAL DEMAND
RESPONSE PROGRAM**

May 14, 2024

To All Parties Who Participated in UG 435

Please be advised that on May 14, 2024, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for authorization to defer for later ratemaking treatment costs associated with developing, implementing, and evaluating a demand response program for its residential and small commercial customers.

This is not a rate case. The purpose of this Notice is to inform parties who participated in the Company's last completed 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
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 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
UM____

I hereby certify that on May 14, 2024, I have served by electronic mail the foregoing NOTICE OF APPLICATION FOR AUTHORIZATION TO DEFER COSTS ASSOCIATED WITH A RESIDENTIAL AND SMALL COMMERCIAL DEMAND RESPONSE PROGRAM upon all parties of record for NW Natural's last completed general rate case, UG 435.

UG 435

OREGON CITIZENS' UTILITY
BOARD
dockets@oregoncub.org

CHAD M. STOKES
CABLE HUSTON LLP
cstokes@cablehuston.com

TOMMY A. BROOKS
CABLE HUSTON LLP
tbrooks@cablehuston.com

STEPHANIE ANDRUS
PUBLIC UTILITY COMMISSION
stephanie.andrus@doj.state.or.us

MATTHEW MULDOON
PUBLIC UTILITY COMMISSION
matt.muldoon@puc.oregon.gov

DIANE HENKELS
SMALL BUSINESS UTILITY
ADVOCATES
diane@utilityadvocates.org

JAMES BIRKELUND
SMALL BUSINESS UTILITY
ADVOCATES
james@utilityadvocates.org

DANNY KERMODE
SMALL BUSINESS UTILITY
ADVOCATES
5553dkcpa@gmx.us

JAIMINI PAREKH
EARTHJUSTICE
jparekh@earthjustice.org

KRISTEN BOYLES
EARTHJUSTICE
kboyles@earthjustice.org

CARRA SAHLER
LEWIS & CLARK LAW SCHOOL
sahler@lclark.edu

ADAM HINZ
EARTHJUSTICE
ahinz@earthjustice.org

JOCELYN PEASE
MCDOWELL RACKNER &
GIBSON PC
jocelyn@mrg-law.com

MCDOWELL RACKNER &
GIBSON PC
dockets@mrg-law.com

ERIC NELSEN
NW NATURAL
eric.nelsen@nwnatural.com

NW NATURAL
efiling@nwnatural.com

DATED May 14, 2024, Troutdale, Oregon.

/s/ Erica Lee-Pella

Erica Lee-Pella
Rates & Regulatory Affairs, NW Natural
250 SW Taylor Street
Portland, Oregon 97204
(503) 610-7330
erica.lee-pella@nwnatural.com