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February 5, 2021

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: Application to Defer Costs Associated with NW Natural's Phase 3 GeoTEE Pilot Program

In accordance with ORS 757.259 and OAR 860-027-0300, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), files herewith an Application to defer certain costs associated with Phase 3 of NW Natural's Geographically Targeted Energy Efficiency (GeoTEE) pilot program.

A notice concerning this Application will be sent to all parties that participated in the Company's most recent general rate case, UG 388. 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
Phone: (503) 610-7330
Fax: (503) 220-2579
eFiling@nwnatural.com

If you have any questions, please contact me.

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 Certain
Costs Associated with NW Natural's
Geographically Targeted Energy
Efficiency Pilot 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
3 treatment costs associated with Phase 3 of NW Natural's Geographically
4 Targeted Energy Efficiency (GeoTEE) pilot program. 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
7 February 28, 2021 through February 27, 2022. NW Natural respectfully requests
8 that the Commission act on this Application by March 23, 2021, to facilitate the
9 planning and implementation phase of this project.

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

1 Communications regarding this Application should be addressed to:

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

9
10 Ryan Sigurdson
11 Regulatory Attorney (OSB #201722)
12 250 SW Taylor Street
13 Portland, Oregon 97204-3038
14 Phone: (503) 610-7570
15 Email: ryan.sigurdson@nwnatural.com;

16
17 and

18
19 Kyle Walker, CPA
20 Manager, Rates & Regulatory Affairs
21 250 SW Taylor Street
22 Portland, Oregon 97204-3038
23 Phone: (503) 610-7051
24 Email: kyle.walker@nwnatural.com
25

26 I. BACKGROUND

27 In NW Natural’s 2016 IRP, docketed as LC 64, the Company included an
28 action item focused on a potential new “non-pipeline solution” distribution system
29 planning tool, aimed at reducing peak load growth with targeted demand-side
30 management (“DSM”). The Action Plan included the following:

- 31 2. Work with Energy Trust of Oregon to further scope a geographically
32 targeted DSM pilot via accelerated and/or enhanced offerings (“Targeted
33 DSM” pilot) to measure and quantify the potential of demand-side
34 resources to cost-effectively avoid/delay gas distribution system
35 reinforcement projects in a timely manner and make a Targeted DSM pilot

1 filing with the Oregon Public Utility Commission (“OPUC”) in late 2017 or
2 early 2018.¹

3 Staff recommend acknowledgement of the action item, which the Commission
4 did in Order No. 17-059.

5 NW Natural has continued to work with the Energy Trust of Oregon
6 (“ETO”) in the intervening years. The pilot program, rebranded as
7 Geographically Targeted Energy Efficiency (“GeoTEE”), was included as part of
8 NW Natural’s 2018 IRP Update filed with the Commission on April 17, 2019. As
9 stated in the update:

10 The purpose of the Geographically-Targeted Energy Efficiency (GeoTEE)
11 Pilot is to better serve customers by gathering the information necessary
12 to evaluate whether GeoTEE can be a cost-effective capacity resource
13 alternative to supply-side distribution system projects for a natural gas
14 local distribution company (LDC).²

15 The pilot’s primary objective is to collect enough data to construct an
16 impacted location-specific peak hour energy efficiency supply curve that can be
17 compared against other peak hour capacity options to determine the most cost-
18 effective approach to alleviate constraints on the Company’s distribution system.
19 Secondary objectives include determining if GeoTEE is a socially desirable tool
20 to serve customers, and explore with stakeholders potential funding mechanisms
21 for future GeoTEE projects in place of annual deferrals.

¹ See page NW Natural 2016 Integrated Resource Plan page 1.18

² NW Natural 2018 IRP Update dated 4/17/19, Attachment 1 page 1.

1 The pilot has three phases. The first phase included increases in
2 marketing and delivery mechanisms in the targeted area above the statewide
3 baseline. The second phase looked at increasing incentives for existing
4 measures, but capped incentives at the statewide cost-effective maximum, as
5 well as considering new delivery pathways. Finally, the third phase, scheduled to
6 start later in 2021, will test incentive levels and additional measures that are not
7 currently cost-effective statewide, but could potentially be a cost-effective option
8 for a localized area by the deferment, or avoidance, of a distribution system
9 project. That is, the local avoided costs of the targeted area are likely higher
10 than those of the state overall, thus the area-specific incentives.

11 Another objective of this pilot is to develop guidance on the appropriate
12 funding and recovery mechanism for GeoTEE. While pipeline project costs are
13 collected over the life of the asset (i.e. recovering the return of and return on the
14 investment over the depreciable life), NW Natural's customers currently pay for
15 EE as a one-time expense in the year that the expense is incurred. GeoTEE, by
16 design, is a direct replacement of a distribution system project, thus NW Natural
17 recommends that the costs of the GeoTEE project be capitalized and recovered
18 over a longer time horizon than traditional EE. Due to the small scale of this pilot,
19 the impact on rates will be minimal, however, if shown to be a cost-effective non-
20 pipeline solution, capitalizing the costs of GeoTEE as a demand-side option for
21 larger areas of the system could mitigate rate shock and volatility, and further
22 promote the adoption of non-pipeline solutions by providing a new pathway for
23 natural gas utilities to invest in the distribution system.

1 **II. APPLICATION**

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

7 **A. Description of the Expenses to be Deferred – OAR 860-027-
8 0300(3)(a).**

9 The Company is planning to defer costs associated with Phase 3 of the
10 GeoTEE pilot program. These costs are for increased EE incentives for
11 customers in the Creswell/Cottage Grove area. An earlier 2018 IRP Update, filed
12 April 17, 2019, included an ETO-prepared estimated budget for the Pilot at
13 approximately \$1.5 million. This was for the entirety of the project, originally
14 planned in the Silverton area. The costs for the Phase 3 activities, now in the
15 Creswell/Cottage Grove area, are currently estimated to be \$644,196, as shown
16 in an exhibit to the agreement between ETO and NW Natural, and included here
17 as Exhibit A.

18 This figure is a ‘top-down’ estimate from ETO, and reflects NW Natural’s
19 best understanding of the anticipated costs. The figure will be refined further
20 once ETO completes a ‘bottom-up’ estimate of spending required. To be clear,
21 NW Natural is not seeking a prudency determination of these costs in this
22 application nor is it requesting a decision on the appropriate recovery mechanism
23 for this project. Rather, if deferred accounting is approved, NW Natural will seek

1 a prudency determination of these costs, and the appropriate recovery
2 mechanism, at the time the Company requests amortization and inclusion in
3 customer rates.

4 **B. Reasons Deferred Accounting is Requested – OAR 860-027-**
5 **0300(3)(b).**

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

16 Here, deferred accounting treatment is appropriate because it will both
17 minimize the frequency of rate changes and match appropriately the costs borne
18 by and benefits received by ratepayers. Without deferred accounting treatment,
19 NW Natural would face the possibility of incurring approximately \$645,000 in
20 prudent and necessary Oregon-allocated expenses with no possibility of cost
21 recovery. Moreover, deferring the Phase 3 GeoTEE spending for recovery will

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 align the project’s costs and benefits, consistent with ORS 757.259(2)(e)’s
2 matching principle. Thus, NW Natural’s application for deferred accounting
3 meets the necessary statutory criteria for deferral at the Commission’s discretion.

4 In determining whether to exercise its discretion and approve a deferred
5 accounting application, this Commission considers (1) whether the expense was
6 foreseeable and therefore could have been modeled in rates; and (2) whether the
7 expense is “significant[t].”⁵ Here, GeoTEE was foreseen—and, indeed,
8 extensively described—in NW Natural’s 2018 IRP Update, but was appropriately
9 *not* included in base rates due to the short-term nature of the pilot.

10 Moreover, absent a regulatory deferral, NW Natural would be required to
11 internalize the entirety of these significant costs. Such an outcome would
12 unjustly penalize NW Natural for pursuing a pilot program to analyze the potential
13 of using GeoTEE in place of infrastructure upgrades. The use of GeoTEE could
14 prove to be more cost effective for customers than infrastructure upgrades
15 necessary to provide safe and reliable customer service.

16 NW Natural’s proposed deferred accounting treatment in this case is
17 consistent with Commission precedent for recovery of the significant costs
18 associated with implementing pilot projects. For instance, the Commission
19 recently approved deferred accounting treatment associated with the incremental
20 costs for Portland General Electric Company’s (“PGE”) Automated Demand

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 Response Pilot (ADR Pilot)⁶. Other PGE pilots with deferrals include a
2 Photovoltaic Volumetric Incentive Rate Pilot, two Residential Demand Response
3 Pilots⁷, and a Demand Response Testbed Pilot⁸.

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

6 Beginning on February 28, 2021, and ending twelve months from this
7 date, NW Natural proposes to account for the expenses incurred as a result of
8 Phase 3 costs on the Company's balance sheet, to later be included in customer
9 rates. In the absence of approval of deferred accounting, NW Natural would
10 record costs associated with the phase 3 GeoTEE pilot in FERC 923 expense
11 accounts. NW Natural proposes to track and defer these costs for later inclusion
12 in rates.⁹

13 **D. Estimation of the Amounts Subject to Deferral – OAR 860-027-**
14 **0300(3)(d).**

15 As described above, NW Natural anticipates incurring approximately
16 \$645,000 in costs related to increased incentives for EE by January 2022.

⁶ In the Matter Portland General Electric Company, Application for Reauthorization of Deferral of Incremental Costs Associated with Automated Demand Response, UM 1514, Order No. 20-479 (2020).

⁷ See OPUC Docket UM 1708.

⁸ See OPUC Docket UM 1976

⁹ 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).

1 **E. Notice of the Application for Deferred Accounting – OAR 860-027-**
2 **0300(3)(e).**

3 OAR 800-027-0300(3)(e) requires NW Natural to provide a copy of the
4 notice of application for deferred accounting and list those persons served with
5 the notice. Notice must be served on all persons who were parties in the
6 Company’s last general rate case.¹⁰

7 Here, a notice of this Application has been served to all parties who
8 participated in the Company’s last recent general rate case, docket UG 388. A
9 copy of this notice is attached to this Application.

10 **III. CONCLUSION**

11 NW Natural respectfully requests that the Commission issue an order
12 authorizing the Company to defer the amounts described in this Application
13 associated with the increased EE incentive costs of the GeoTEE pilot program,
14 beginning on February 28, 2021. NW Natural further requests that action be
15 taken on this Application by March 23, 2021 or sooner.

16 Dated this 5th day of February, 2021.

17 Respectfully Submitted,

18 NW NATURAL

19 /s/ Kyle Walker, CPA
20 Kyle Walker, CPA
21 Rates/Regulatory Manager
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27 ¹⁰ OAR 860-027-0030(6).

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/s/ Ryan Sigurdson
Ryan Sigurdson
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Portland, Oregon 97204-3038
Phone: (503) 610-7570
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EXHIBIT B

**EXHIBIT B
 FUNDING SCHEDULE**

In compliance with Section 4, NW Natural will pay GeoTEE Phase 3 Funds to Energy Trust for incremental incentives and pilot deliver services in accordance with the following schedule:

Installments:

July 1, 2021	\$ 214,732.00
October 1, 2021	\$ 214,732.00
January 1, 2022	\$ 214,732.00

In the event the 1st of the month should fall on a weekend, or a United States of American Federal holiday, then the required funding shall be transferred on the last business day before the weekend or holiday.

The above stated funding for \$644,196.00 in GeoTEE Phase 3 Funds to be distributed to Energy Trust in 2021 and 2022 is for acquisition of to be determined peak therm savings. The above funding schedule is based on the following budget:

2021 Funding Requirement

\$644,196.00

	Total costs	Delivery Costs	Incentive costs
Phase 3 Incremental to statewide offers			
Commercial	\$106,405	\$39,654	\$66,751
Residential	\$537,792	\$233,851	\$303,940
Total	\$644,196	\$273,505	\$370,691



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**NOTICE OF APPLICATION TO DEFER COSTS ASSOCIATED WITH
NW NATURAL'S PHASE 3 GEOTEE PILOT PROGRAM**

February 5, 2021

To All Parties that Participated in UG 388

Please be advised that on February 5, 2021 Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for AUTHORIZATION TO DEFER COSTS ASSOCIATED WITH NW NATURAL'S PHASE 3 GEOGRAPHICALLY TARGETED ENERGY EFFICIENCY (GEOTEE) PILOT PROGRAM

This is not a rate case. The purpose of this Notice is to inform parties that participated in the Company's most recent general rate case, UG 388, 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) 378-6636**

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 February 5, 2021, I have served by electronic mail the foregoing NOTICE OF APPLICATION TO DEFER COSTS ASSOCIATED WITH NW NATURAL'S PHASE 3 GEOTEE PILOT PROGRAM upon all parties of record for the Company's most recent general rate case, UG 388.

UG 388

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DATED February 5, 2021, Troutdale, OR.

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