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nwnatural.com

December 31, 2020

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 Cost of Service Associated with Tyson RNG Project

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 use deferred accounting for the cost of service associated with the Tyson Fresh Meats renewable natural gas project in Lexington, Nebraska.

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
Telecopier: (503) 220-2579
Phone: (503) 610-7330
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 Cost of
Service Associated with Tyson RNG
Project 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 cost of service associated with the Tyson Fresh Meats Renewable Natural Gas
4 Project in Lexington, Nebraska (“Lexington Project”). 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 December 31, 2020 through December 30, 2021.

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

12 Communications regarding this Application should be addressed to:

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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
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9 Ryan Sigurdson
10 Regulatory Attorney (OSB #201722)
11 250 SW Taylor Street
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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 July 15, 2019, Senate Bill 98 (“SB 98”) was enacted to facilitate the
27 acquisition of renewable natural gas (“RNG”) by allowing natural gas utilities to
28 fully recover their prudently incurred costs associated with such acquisitions.¹
29 For a “large natural gas utility,” such as NW Natural, SB 98 also includes certain
30 RNG targets. These targets are phased in over time, starting at 5% of Oregon
31 sales in 2020 and gradually increasing to 30% by 2045.²

32 NW Natural’s initial step in meeting these first-in-the-nation RNG targets is
33 the Lexington Project. Currently scheduled to commence service on December

¹ ORS 757.394; ORS 757.396(2).
² ORS 757.396(1).

1 1, 2021, the project is expected to produce approximately 1.9 million therms of
2 RNG per year, which is approximately 0.26% of NW Natural's Oregon sales. The
3 Lexington Project is located next to a Tyson Fresh Meats beef packaging plant
4 and will use anaerobic digester technology to convert animal waste and other
5 byproducts from the plant into RNG. This RNG will be injected into the Black
6 Hills Energy local distribution system, and will generate Renewable Thermal
7 Certificates³ that will be used to meet SB 98 targets per OAR 860-150-0050.

8 NW Natural respectfully requests approval authorizing the deferral for
9 future ratemaking treatment of the Lexington Project's cost of service, which are
10 not currently included in rates. This amount reflects the Company's qualified
11 investment in the project and includes: 1) incremental depreciation expense, 2)
12 return on investment at the most recently authorized rate of return, 3) income and
13 property taxes, 4) operating and maintenance costs, and 5) other costs relating
14 to the Company's qualified investment. While NW Natural has filed an automatic
15 adjustment clause for RNG projects that may lessen the need for similar
16 deferrals in the future, it does not currently have one in place.

17 II. APPLICATION

18 ORS 757.259 empowers the Commission to authorize the deferral of
19 expenses or revenues of a public utility for later inclusion in rates.⁴ The
20 Commission has established rules implementing this statute in OAR 860-027-

³ OAR 860-150-0010 defines "Renewable Thermal Certificates" as a "unique representation of the environmental attributes associated with the production, transport, and use of one dekatherm of renewable natural gas."

⁴ 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 0300, including specific requirements for deferred accounting applications—each
2 of which is addressed in turn, below.

3 **A. Description of the Expenses to be Deferred – OAR 860-027-**
4 **0300(3)(a).**

5 The Company is seeking to defer the cost of service of the Lexington
6 Project, as defined above, during the 12-month deferral period (December 31,
7 2020 to December 30, 2021), estimated to be approximately \$8.6 million,
8 including approximately \$100,000 in transaction costs related to an independent
9 engineering assessment of the project, legal fees, and other due diligence costs.

10 The above figures reflect NW Natural's best understanding of the
11 anticipated costs. NW Natural is not seeking a prudence determination of these
12 costs in this application. Rather, if deferred accounting is approved, NW Natural
13 will seek a prudence determination of these costs in a future proceeding that
14 reviews the prudence of the Lexington Project.

15 **B. Reasons Deferred Accounting is Requested – OAR 860-027-**
16 **0300(3)(b).**

17 ORS 757.259 is a “statutorily authorized exception to the general
18 prohibition against retroactive ratemaking” that “empowers the Commission to
19 authorize the deferral of capital project costs, including depreciation expense and
20 financing costs,” as well as a utility’s other expenses and revenues.⁵

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

⁵ *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” to determining whether deferred accounting meets either prong of this
4 two-part test.⁶ Deferring the cost of service of the Lexington Project for recovery
5 until after it enters service will align the project’s costs and benefits, consistent
6 with ORS 757.259(2)(e)’s matching principle. Granting this deferral will also give
7 NW Natural the opportunity to later demonstrate that the costs it has incurred are
8 prudent and can be recovered in rates.

9 NW Natural’s proposed deferred accounting treatment is consistent with
10 Commission precedent that has allowed electric utilities to defer the cost of
11 renewable resources under SB 838.⁷ For instance, in 2007, the Commission
12 adopted Staff’s recommendation to defer the costs associated with a number of
13 PacifiCorp renewable projects.⁸ In its report, Staff stated that SB 838
14 “authorize[d] [electric] utilities to timely recover in rates all costs that are
15 prudently incurred relating to investment in renewable energy facilities and
16 associated transmission,” and concluded that “deferred accounting is a method
17 of timely cost recovery for costs prudently incurred relating to investment in
18 Renewable Resources.”⁹ As stated above, SB 98 also authorizes NW Natural to

⁶ Order No. 05-1070 at 5.

⁷ See e.g., *In the Matter of PacifiCorp, Application for Deferral of Costs Relating to Renewable Resources Pursuant to SB 838*, Docket UM 1338, Order No. 07-457 (Oct. 4, 2007); *In the Matter of PacifiCorp, Application for Deferral of Costs Relating to the Dunlap I Wind Resource*, Docket UM 1503, Order No. 10-484 (Dec. 20, 2010); and *In the Matter of Portland Gen. Elec. Co., Application for Deferral of Revenue Requirement of Incremental Costs Associated with Baldock Solar Project*, UM 1574, Order No. 12-063, (Feb. 28, 2012).

⁸ *In the Matter of PacifiCorp, Application for Deferral of Costs Relating to Renewable Resources Pursuant to SB 838*, Docket UM 1338, Order No. 07-457 (Oct. 4, 2007).

⁹ Order No. 07-457, Staff Report at 2.

1 fully recover its prudently incurred costs related to RNG. RNG should receive
2 treatment similar to other renewable resources in order to ensure that NW
3 Natural has the opportunity to recover its prudently incurred costs.

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

6 Beginning on December 31, 2020, and ending 12 months from this date,
7 NW Natural proposes to account for the costs associated with the Lexington
8 Project by recording the deferral in Account 186. In the absence of approval of
9 deferred accounting, NW Natural would record the amounts in several accounts
10 affecting the Company's income statement and balance sheet.

11 **D. Estimation of the Amounts Subject to Deferral – OAR 860-027-**
12 **0300(3)(d).**

13 As described above, NW Natural anticipates incurring approximately
14 \$8.6 million in Lexington Project costs by December 2021.

15 **E. Notice of the Application for Deferred Accounting – OAR 860-027-**
16 **0300(3)(e).**

17 OAR 860-027-0300(3)(e) requires NW Natural to provide a copy of the
18 notice of application for deferred accounting and list those persons served with
19 the notice. Notice must be served on all persons who were parties in the
20 Company's last general rate case.¹⁰

¹⁰ OAR 860-027-0300(6).

1 A notice of this Application has been served to all parties who participated
2 in the Company's last recent general rate case, docket UG 388. A copy of this
3 notice is attached to this Application.

4 **III. CONCLUSION**

5 NW Natural respectfully requests that the Commission issue an order
6 authorizing the Company to defer the amounts described in this Application
7 associated with the Lexington Project, beginning on December 31, 2020.

8 Dated this 31st day of December, 2020.

9 Respectfully Submitted,

10 NW NATURAL

11 /s/ Kyle Walker, CPA
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UM_____

**NOTICE OF APPLICATION TO DEFER THE COST OF SERVICE
ASSOCIATED WITH TYSON RNG PROJECT**

December 31, 2020

To All Parties that Participated in UG 388

Please be advised that on December 31, 2020 Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for AUTHORIZATION TO DEFER THE COST OF SERVICE ASSOCIATED WITH THE TYSON FRESH MEATS RNG PROJECT IN LEXINGTON, NEBRASKA.

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 December 31, 2020, I have served by electronic mail the foregoing NOTICE OF APPLICATION TO DEFER THE COST OF SERVICE ASSOCIATED WITH THE TYSON FRESH MEATS RNG PROJECT upon all parties of record for the Company's most recent general rate case, UG 388.

UG 388

OREGON CITIZENS' UTILITY BOARD
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DATED December 31, 2020, Troutdale, OR.

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