



250 SW Taylor Street
Portland, OR 97204

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nwnatural.com

August 14, 2023

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 2252 - NW Natural's Application for Reauthorization 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 reauthorization to defer the costs of compliance with the Climate Protection Program. The Company also includes a request for cash basis accounting treatment for this deferral.

A notice concerning this application will be sent to all parties who participated in the Company's last 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 Senior Manager

Enclosures

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 2252

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba, NW NATURAL

APPLICATION

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

1 Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the
2 “Company”), hereby files with the Public Utility Commission of Oregon (the
3 “Commission”) this application (“Application”) seeking reauthorization to use
4 deferred accounting pursuant to ORS 757.259 and OAR 860-027-0300, for the 12-
5 month period beginning August 15, 2023 through August 14, 2024 for costs
6 associated with Climate Protection Program (“CPP”) compliance, including
7 depreciation expense and financing costs of capital projects, as well as a utility’s
8 other expenses and revenues.¹ The Company is also requesting to use cash-basis
9 accounting treatment for CPP costs.

10 **Climate Protection Program**

11 On December 16, 2021, the ODEQ adopted the CPP, which are
12 administrative rules that set GHG reduction targets.² The CPP sets a declining limit,

¹ *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).

² OAR 340-271-0010 – 9000.

1 or cap, on greenhouse gas emissions from fossil fuels used throughout the state of
2 Oregon, including diesel, gasoline, natural gas and propane, used in transportation,
3 residential, commercial and industrial settings (the program is not inclusive of fossil
4 fuel used in electric generation)³. The CPP also regulates site-specific greenhouse
5 gas emissions at large stationary sources, such as emissions from industrial
6 processes.⁴ The program baseline is set at average greenhouse gas emissions
7 from covered entities from years 2017-2019.⁵ Reductions from this baseline are set
8 at 50 percent by 2035 and 90 percent by 2050.⁶

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

14 Covered entities’ emissions are reported annually through the existing DEQ
15 greenhouse gas reporting program⁹ and compliance will be demonstrated by each
16 covered entity at the end of each three-year compliance period.¹⁰ To comply,

³ OAR 340-271-0110.

⁴ OAR 340-271-0310.

⁵ 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.

⁶ *Id.*

⁷ OAR 340-271-0020(15)

⁸ 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).

⁹ OAR 340-215.

¹⁰ OAR 340-271-0440.

1 covered entities like NW Natural can work to reduce usage through efficiency
2 measures, introduce renewable and low carbon alternative fuels, trade for additional
3 compliance instruments with other covered entities, or purchase a limited amount of
4 Community Climate Investments (“CCIs”).¹¹

5 **Proposed CPP Accounting Treatment**

6 The current deferral is based on the traditional accrual basis of accounting to
7 defer incurred expenses for later ratemaking. The current deferral allows the
8 Company to defer an accrued compliance obligation expense when the covered
9 emissions exceed the CPP compliance instruments for that compliance period
10 (“cap”).¹² Even though the Company may purchase CCIs before exceeding the cap,
11 these purchases would not be deferred under the currently approved deferral
12 application, but would instead be included in an inventory account on the Company’s
13 balance sheet until the CCIs are surrendered for compliance at the end of the
14 compliance period. Inventory accounts do not accrue interest and could therefore
15 harm the Company and perhaps disincentivize the Company to pursue the most
16 cost-effective way to comply with the CPP. The current accrual basis of accounting
17 does not consider the timing of actual cash outflows associated with CPP
18 compliance. For instance, a utility may choose to pursue compliance measures,
19 such as acquiring CCI’s in the compliance period on a cadence different from when
20 the emissions over the cap occurred. A utility may pursue a different cadence for a
21 host of reasons. For instance, a utility may choose to spread the cost recovery of

¹¹ OAR 340-271-0450.

¹² The annual quantity of compliance instruments distributed to NW Natural is listed in presented in Table 4 of OAR 340-271-9000.

1 the compliance period over the three-year period, instead of waiting until the point at
2 which the Company is likely to exceed the CPP cap. Also, it may choose to acquire
3 CCIs in an amount greater than its compliance obligation for reasons such as
4 favorable prices or the ability to carry forward a cheaper compliance option versus
5 an alternative. The flexibility to choose when the Company purchases CCIs rather
6 than matching the timing of when the accrued expense obligation is incurred gives
7 the utility the opportunity to reduce its costs, smooth customer rate impacts, and
8 ensure it can meet its CPP compliance requirements. Therefore, the Company is
9 requesting to utilize the cash basis of accounting for this deferral and to accrue
10 interest based on the cash flow for CPP compliance in the regulatory deferral and
11 not based on the accrued expense obligation, as it has a material impact on
12 recovery of the financing costs in a future proceeding.

13 In support of this Application, NW Natural states:

14 **A. NW Natural.**

15 NW Natural is a public utility in the State of Oregon and is subject to the
16 jurisdiction of the Commission regarding rates, service, and accounting practices.
17 NW Natural provides retail natural gas service in the States of Oregon and
18 Washington.

19 **B. Statutory Authority.**

20 This application is filed pursuant to ORS 757.259, which empowers the
21 Commission to authorize the deferral of expenses or revenues of a public utility for
22 later inclusion in rates.

1 **C. Communications.**

2 Communications regarding this Application should be addressed to:

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

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

16
17 and

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

25 **D. Description of the Expenses or Revenues for which Deferred**

26 **Accounting is Requested – OAR 860-027-0300(3)(a).**

27 NW Natural requests reauthorization to defer the costs associated with the
28 compliance of the Climate Protection Plan. These costs will include increased
29 planning activities (e.g. studies, audits, etc.), enhanced energy efficiency measures
30 for all customers, renewable and low carbon alternative fuels, trade for additional
31 compliance instruments with other covered entities, other decarbonization
32 alternative, and/or purchase a limited amount of CCIs.

1 **E. Reasons Reauthorization of Deferred Accounting is Being Requested –**
2 **OAR 860-027-0300(3)(b).**

3 ORS 757.259 is a “statutorily authorized exception to the general prohibition
4 against retroactive ratemaking” that allows a “means to address utility expenses or
5 revenues outside of the utility’s general rate case proceeding.¹³ Under ORS
6 757.259(2)(e), the Commission has discretion to authorize a deferral of “[i]dentifiable
7 utility expenses or revenues, the recovery or refund of which the commission finds
8 should be deferred in order to minimize the frequency of rate changes . . . or to
9 match appropriately the costs borne by and benefits received by rate payers.” NW
10 Natural requests this deferral to match the costs borne and benefits received by
11 customers.

12 **F. Accounting – OAR 860-027-0300(3)(c).**

13 Beginning on August 15, 2023, and ending 12 months from this date, NW
14 Natural proposes to account for the costs associated with the CPP by recording the
15 deferral in a FERC 186 account. In the absence of re-approval of deferred
16 accounting, NW Natural would record the amounts in several accounts affecting the
17 Company’s income statement and balance sheet.

18 **G. Estimated Amounts Subject to Deferral – OAR 860-027-0300(3)(d)**

19 NW Natural does not have an estimate of what amounts will be recorded in
20 the CPP deferral account for the upcoming 12-month period. The intricacy of this

¹³ *In re Matter Public Utility Commission of Oregon Staff Request to Open Investigation Related to Deferred Accounting*, Docket UM 1147, Order No. 05-1070 at 2 (October 5, 2005).

1 program requires a thorough examination of all compliance instruments, and the
2 Company continues to evaluate how it will comply with the CPP.

3 **H. Description of Entries in Deferred Account Under UM 2252 - OAR 860-**
4 **027-0300(4)(a)**

5 Pursuant to OAR 860-027-300(4)(a), NW Natural has deferred (\$2,672,843)
6 for the months August 2022 through the date of this filing.

7 **I. Reason for Continuation of Deferral Account – OAR 860-027-**
8 **0300(4)(b)**

9 The continuation of deferred accounting for the matters addressed above is
10 justified because they are continuing in nature.

11 **J. Requirement per Commission Order No. 09-263**

12 Below is the information required per Commission Order No. 09-263, issued
13 in Docket UM-1286, Staff's Investigation into Purchase Gas Adjustment ("PGA")
14 Mechanisms:

- 15 1. **A completed Summary Sheet, the location in the PGA filing, and an**
16 **account map that highlights the transfer of dollars from one account**
17 **to another.**

18 The Summary Sheet will be included in the 2024-25 PGA filing work
19 papers if there are costs to report. If so, the Summary Sheet will be
20 provided in the electronic file entitled, "Proposed Temps Oregon 2024-
21 2025 PGA....xlsx."

1 **2. The effective date of the deferral**

2 This application is for the 12-month period beginning August 15, 2023 and
3 ending August 15, 2024.

4 **3. Prior year Order Number approving the deferral**

5 Approval to use deferred accounting for costs associated with CPP
6 compliance was last granted on October 18, 2022, in Commission Order
7 No. 22-377.

8 **4. The amount deferred last year.**

9 (\$2,767,843) was deferred during the last deferral period year of August
10 15, 2022, and ending August 15, 2023.

11 **5. The amount amortized last year.**

12 \$95,000 was amortized in rates August 15, 2022 thru August 14, 2023.

13 **6. The interest rate that will apply to the accounts.**

14 The interest rate for deferral accounts is 6.836%.

15 **7. An estimate of the upcoming PGA-period deferral and/or
16 amortization.**

17 NW Natural is unable to estimate the amount to be deferred in the
18 upcoming PGA as the Company continues to evaluate how it will comply
19 with CPP.

20 **K. Notice – OAR 800-027-0300(6).**

21 A notice of this Application has been served to all parties who participated in
22 the Company's last general rate case, UG 435, and is attached to this Application.

1 NW Natural respectfully requests that the Commission issue an order
2 reauthorizing the Company to use deferred accounting for costs associated with
3 CPP compliance beginning on August 15, 2023.

4 Dated this 14th of August 2023.

5 Respectfully Submitted,

6 NW NATURAL

7 /s/ Kyle Walker, CPA
8 Kyle Walker, CPA
9 Rates/Regulatory Senior Manager

10
11 /s/ Ryan Sigurdson
12 Ryan Sigurdson (OSB #201722)
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14 250 SW Taylor Street
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UM 2252

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

August 14, 2023

To All Parties Who Participated in UG 435

Please be advised that on August 14, 2023, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for REAUTHORIZATION 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 who participated in the Company's last general rate case, UG 435, that a deferral reauthorization 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 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 on August 14, 2023, I have served by electronic mail the foregoing NOTICE OF APPLICATION FOR REAUTHORIZATION TO DEFER COSTS OF COMPLIANCE WITH THE CLIMATE PROTECTION PROGRAM upon all parties of record for NW Natural's last general rate case, UG 435.

UG 435

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DATED August 14, 2023, Troutdale, OR.

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