

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 29, 2022**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

**DATE:** November 17, 2022

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

**THROUGH:** Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

**SUBJECT:** NOTHWEST NATURAL:  
(Docket No. UM 1714(7))  
Application for Reauthorization to Defer Certain Expenses or Revenues.

**STAFF RECOMMENDATION:**

Staff recommends that Northwest Natural Gas Company's (NW Natural, NWN, or Company) application for reauthorization to defer costs associated with the development of projects under Senate Bill (SB) 844 for a period of January 20, 2022, through January 19, 2023.

**DISCUSSION:**

Issue

Whether the Commission should approve NW Natural's request for reauthorization to defer associated with the development of projects to be submitted under SB 844.

Applicable Rule or Law

NW Natural submitted its deferral application in accordance with ORS 757.259(2)(e) and OAR 860-027-0300 seeking authority to defer costs related to the development of voluntary Emission Reduction Programs under SB 844 (codified at ORS 757.539).

ORS 757.259(2)(e) provides the Commission with authority to authorize the deferral of utility revenues and expenses, for later inclusion in rates, upon finding that the deferral

would minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers.

ORS 860-027-300 sets for several requirements for deferral applications. Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred are allowed in rates to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral.

Codified in ORS 757.539, Senate Bill 844, aims to incentivize public utilities that furnish natural gas to invest in projects that reduce emissions and to provide benefits to customers of public utilities that furnish natural gas." ORS 757.539(5) authorizes the Commission to allow the utility to recover incremental costs of Emissions Reduction Programs from ratepayers that may receive a benefit from the emissions reduction. ORS 757.539(4) states that the utility must file an application with, and receive approval from, the Commission for any project proposed under this legislation.

## Analysis

### *Background*

Northwest Natural Gas Company submitted this application on January 11, 2022, seeking reauthorization to use deferred accounting for all expenses associated with NW Natural's development of projects under SB 844, and to continue to have the ability to defer costs, as appropriate, and to allocate program costs in a way that fulfills the purposes of SB 844.

Senate Bill 844 established a voluntary emission reduction program ("Emission Reduction Program") for natural gas utilities to invest in projects that reduce greenhouse gas emissions that the utilities would not undertake in the normal course of business.

NW Natural has been, and continues to be, in the process of developing projects under this law. The Company originally filed this deferral to ensure that it assigns each project the appropriate expenses that it may incur in developing them, and to recover those costs as determined appropriate by the Commission.

NW Natural anticipates that any cost recovery of deferred expenses would be ruled on as part of the Commission's review and approval of individual projects under SB 844.

### *Description of Expense*

The expenses in furtherance of the Emission Reduction Program, the Company seeks to defer its ongoing costs so that those amounts can be recovered in rates in the event

the Commission should conclude that such recovery is appropriate in future proceedings by recording the deferral in Account 186.

*Reason for Deferral*

This request is made in accordance with ORS 757.259(2)(e), which allows the deferral of utility expenses where necessary to appropriately match the costs borne by and benefits received by ratepayers.

*Proposed Accounting*

Beginning on January 20, 2022, and ending 12 months from that date, NW Natural proposes to account for the costs associated with the Emission Reduction Program by recording the deferral in Account 186. In the absence of approval of deferred accounting, NW Natural would record the amounts in several accounts affecting the Company's income statement and balance sheet, which those "several accounts" must be detailed in the rates cases.

*Deferral Account During Past 12 Months Activity*

No expenses were deferred in the previous 12 months. NW Natural Company has an accumulated deferral balance of \$0 since it began deferring expenses for SB 844 programs.

*Current Estimate of Amounts*

NW Natural does not have sufficient information at this time to accurately estimate the amount subject to deferral.

*Reason for Continued Deferral*

Under ORS 757.259(2)(e), the Commission has discretion to authorize a deferral of "identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes and also match appropriately the costs borne by and benefits received by ratepayers."

The Company requests continuation of this deferral as new projects are currently being developed that may be filed with the Commission in the coming year.

*Information Related to Future Amortization*

- Earnings Review – Pursuant to ORS 757.259(5) an earnings review is required prior to amortization.
- Prudence Review – The prudence review should be limited to verification of the accounting methodology used to determine the final amortization balance.

- Sharing – Under ORS 757.539(8)(b), the Commission determines the method a utility should use to recover costs of programs approved under the statute at the time it approves the program.
- Rate Spread/Design – Under ORS 757.539(8)(b), the Commission determines which ratepayers should be charged for a program approved under that statute at the time it approves the program.
- Three Percent Test (ORS 757.259(6)) – This deferral is subject to the three percent test, which measures the annual overall average effect on customer rates resulting from deferral amortizations.

### Conclusion

Staff recommend the Commission approve NW Natural's application, since it meets the requirements of ORS 757.259. The Company should be allowed to defer project costs associated with SB 844, subject to any projects being reviewed and approved by the Commission.

The Company has reviewed this memo and agrees with its content.

### **PROPOSED COMMISSION MOTION:**

Approve Northwest Natural's request to reauthorize the deferral of costs associated with the development of projects to be submitted under SB 844 (ORS 757.539) for the twelve-month period beginning of January 20, 2022, through January 19, 2023.