

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 5, 2023**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A**

DATE: August 3, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway and Marc Hellman **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 1714(8))
Request Authorization to defer certain Revenues and Expenses
associated with the Emission Reduction Program under Senate Bill 844.

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, 2023, through January 19, 2024.

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 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.

ORS 757.539(8) 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. 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(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

On January 10, 2023, the Company submitted an application-reauthorization to use deferred accounting pursuant to ORS 757.259 and OAR 860-027-0300 for all expenses associated with NW Natural's development of projects under Senate Bill 844 for the 12-month period beginning January 20, 2023, through January 19, 2024.

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.

The Company has been and continues to be in the process of developing projects under this law, and 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.

The Company now files this Application to continue to have the ability to defer costs, as appropriate, and to allocate program costs in a way that fulfills the purposes SB 844. 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.

The Company's deferral approach is consistent with the purpose of Senate Bill 844, which is to "incentiviz[e] public utilities that furnish natural gas to invest in projects that

reduce emissions and [to] provid[e] benefits to customers of public utilities that furnish natural gas.”¹

Reason for Deferral

This Application is made pursuant to ORS 757.259(2)(e) in order “to minimize the frequency of rate changes” and to match “the costs borne by, and benefits received by ratepayers,” associated with the expenses the Company incurs developing and implementing greenhouse gas reduction projects for the State’s Emission Reduction Program.

The Company seeks the reauthorization of this deferral to further the important regulatory policies established in SB 844, which was designed to incentivize gas utilities to invest in projects that reduce carbon emissions and benefit customers, in conjunction with the statutory incentive and regulatory policies established in SB 844.

Proposed Accounting

The Company proposes to account for the costs associated with the Emission Reduction Program by recording the deferral in Account 186.

Estimate of Amounts

The Company does not have sufficient information at this time to accurately estimate the amount subject to deferral. However, no costs were deferred last year.

Amortization

The Company is unable to estimate the deferral and/or amortization balance as projects have not been developed sufficiently to forecast potential costs for the upcoming PGA filing.

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.

¹ UM 1714 NW NATURAL’S APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES OR REVENUES.

- 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 12-month period beginning of January 20, 2023, ending January 19, 2024.