

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 6, 2021

REGULAR  CONSENT  EFFECTIVE DATE January 20, 2020

DATE: April 1, 2021

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: NORTHWEST NATURAL:  
(Docket No. UM 1714(5) and (6))  
Requests reauthorization to defer expenses associated with projects developed under SB 844.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural, NWN, or Company) request to reauthorize the deferral of costs associated with the development of projects under Senate Bill 844 (ORS 757.539) for the two annual periods of January 20, 2020, through January 19, 2021, and January 20, 2021, through January 19, 2022.

**DISCUSSION:**

Issue

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

Applicable Law

NW Natural makes this filing in accordance with 757.259 and OAR 860-027-0300<sup>1</sup> seeking authority to defer costs related to the development of voluntary Emission Reduction Programs under SB 844 (codified at ORS 757.539).

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<sup>1</sup> NW Natural also cites ORS 757.210, but that statute concerns rate changes and is not pertinent to this request for deferral reauthorization.

ORS 757.259 authorizes the Commission to allow a utility to defer, for later recovery in rates, expenses, or revenues to minimize frequency of rate changes or to match appropriately the costs borne by and benefits received by customers.

OAR 860-027-0300 sets forth several requirements for applications to defer. 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(5) authorizes the Commission to allow the utility to recover incremental costs of Emission 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*

Senate Bill 844, codified at ORS 757.539, 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 otherwise undertake in the normal course of business.

NW Natural developed a project intended to incentivize customers to install Combined Heat and Power (CHP) systems. NW Natural presented that project to the Commission for approval in Docket No. UM 1744. The Commission denied NW Natural's application to proceed with the project in Order No. 16-132 primarily on the basis of high-cost impact to rate payers.<sup>2</sup>

NW Natural states that it is currently developing several other carbon emission reduction projects in response to the passage of Senate Bill 844. NW Natural believes that the Emission Reduction Program, provided in ORS 757.539 and OAR 860-085-0500 through OAR 860-085-0750, enables the Company to pursue greenhouse gas reduction projects that were historically uneconomical, by allowing the utility an opportunity for cost recovery and financial incentives to undertake such projects.

The Company is contemplating a hydrogen pilot project in partnership with the Eugene Water and Electric Board (EWEB). Excess wind and solar energy would be used to

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<sup>2</sup> See Order No. 16-132 at 5.

produce hydrogen, and then mixed with carbon waste to produce a type of methane that NWN could use in its distribution system. The Company did not include the project in its deferral filing, but recently met with Commission staff to give a presentation of the project.

#### *Proposed Accounting*

NW Natural proposes to account for any costs associated with the Emission Reduction Program by recording the deferrals in Account 186. In absence of approval of deferred accounting, the Company would record the amounts in several accounts affecting the Company's income statement and balance statement.

#### *Estimated Deferrals in Authorization Period*

NW Natural does not currently have sufficient information to estimate the amount subject to deferral. The Company anticipates that the Commission would rule on any cost recovery of expenses as part of review and approval of any SB 844 projects. It also anticipates needing to make a demonstration of the incremental nature of these costs at the time it seeks any cost recovery.

#### *Information Related to Future Amortization*

- Earnings review – An earnings review is required prior to amortization, pursuant to ORS 757.259(5).
- Prudence Review – A prudence review is required prior to amortization and should include the 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 that statute at the time it approves the program.
- Rate Spread/Design – Under ORS 757.539(8)(a), 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)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

### Conclusion

The Commission has found that “encourage[ing] utility or customer behavior consistent with regulatory policy” is appropriate for deferred accounting. (See Docket No. UM 1147, Order No. 05-1070 at 2). It should be noted that at the time of amortization, each project that the Company would like to amortize must be completed (used and useful) and approved by the Commission.

NW Natural’s application meets the requirements of ORS 757.259. The Company should be allowed to defer project costs associated with Senate Bill 844, subject to any projects being reviewed and approved by the Commission. Staff encourages NWN to file an application with the Commission for any SB 844 projects early in the planning process.

### **PROPOSED COMMISSION MOTION:**

Approve Northwest Natural’s request to reauthorize the deferral of costs associated with the development of projects to be submitted under Senate Bill 844 (ORS 757.539) for the two annual periods of January 20, 2020, through January 19, 2021, and January 20, 2021, through January 19, 2022.