

PUBLIC UTILITY COMMISSION OF OREGON  
CONFIDENTIAL STAFF REPORT  
PUBLIC MEETING DATE: September 6, 2022

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

DATE: August 15, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: NORTHWEST NATURAL:  
(Docket No. UM 2155)  
Requests for reauthorization to defer costs associated with its Geographically Targeted Energy Efficiency pilot program.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural, NWN, or Company) application to defer costs associated with the third phase of its Geographically Targeted Energy Efficiency (GeoTEE) pilot program for the 12-month period beginning February 28, 2022.

**DISCUSSION:**

Issue

Whether the Commission should approve NW Natural's request for authorization to defer costs associated with Phase 3 of its GeoTEE pilot program.

Applicable Law

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

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

In OAR 860-027-0300(3), the Commission has set forth the requirements for the contents of deferred accounting applications. Applications for reauthorization must include that information along with a description and explanation of the entries in the deferred account to the date of the application for reauthorization and the reason for continuation of deferred accounting. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. When subject to an automatic adjustment clause under ORS 757.210(1), the Commission may require an earnings review. With some exceptions, a company's amortization of amounts deferred under ORS 757.259(5) cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. ORS 757.259(6).

## Analysis

### *Background*

On February 25, 2022, NW Natural submitted an application seeking reauthorization to defer for later ratemaking treatment costs or revenues associated with Phase 3 of NW Natural's GeoTEE pilot program pursuant to ORS 757.259 and OAR 860-027-0300, for the 12-month period beginning February 28, 2022, through February 27, 2023.

In this Application, the Company is requesting that the Commission reauthorize the deferral of costs or revenues associated with Phase 3 of the GeoTEE pilot program. The deferred costs are for increased energy efficiency incentives for customers in the Creswell/Cottage Grove area, and any deferred revenues would represent unspent funds returned to the Company.

NW Natural has continued to work with the Energy Trust of Oregon (ETO) in the intervening years to develop a program from this Action Item. The pilot program, rebranded as GeoTEE, was included as part of NW Natural's 2018 IRP Update filed with the Commission on April 17, 2019.

### *Current Filling*

An earlier 2018 IRP Update, filed April 17, 2019, included an ETO prepared estimated budget for the pilot program at approximately \$1.5 million. This was for the entirety of the project, originally planned in the Silverton area. The costs for the Phase 3 activities, now in the Creswell/Cottage Grove area, are currently estimated to be \$644,196.<sup>1</sup> This figure is a 'top-down' estimate from ETO and reflects NW Natural best understands the anticipated costs. The figure will be refined further once ETO completes a 'bottom-up' estimate of spending required.

Note: NW Natural is not seeking a prudence determination of these costs and revenues in this application, nor is it requesting a decision on the appropriate recovery mechanism for this project. Rather, if deferred accounting is approved, NW Natural will seek a prudence determination of these costs and revenues, and the appropriate recovery mechanism, at the time the Company requests amortization and inclusion in customer rates.

### *Description of Expenses*

The estimated budget for the entirety cost of the project was at approximately \$1.5 million. The costs for the Phase 3, now in the Creswell/Cottage Grove area, are currently estimated to be \$644,196.

### *Proposed Accounting*

NW Natural proposes to account for any association with the GeoTEE pilot on its balance sheet to later be included in customer rates.<sup>2</sup> In the absence of approval of deferred accounting, NW Natural would record costs or revenues associated with the Phase 3 GeoTEE pilot in FERC 923 expense accounts.

### *Estimated Deferrals in Authorization for the Next 12 months*

NW Natural's anticipation that costs will be \$644,196 has not changed. Any unspent funds returned by ETO will be credited to Account 186, offsetting any recorded deferral costs.

### *Capitalization*

With regard to the Company's proposal to capitalize GeoTEE expenses for long-term amortization, Staff makes no recommendation at this time. A main purpose of the pilot

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<sup>1</sup> Exhibit to the agreement between ETO and NW Natural, and included here as Exhibit A.

<sup>2</sup> Pursuant to Commission Order No. 08-263, NW Natural will apply an interest rate based in the most recently authorized ROR to this account. See Docket UM 1147, Order No. 08-263 at 1 (noting that, "historically, a utility's deferred accounts have earned interest based on that utility's authorized rate of return (AROR)," before establishing a modified interest rate for deferred accounts during the amortization period).

project is to learn whether geographically targeted enhanced energy efficiency incentives could become a cost-effective capacity resource. If such measures were determined to be an effective substitute for distribution pipeline projects, a closer examination of NW Natural's proposal would be warranted. At this point, however, Staff believes it is premature to identify an appropriate cost recovery mechanism.

#### *Information Related to Future Amortization*

- Earnings Review – Cost recovery associated with this deferral will not be subject to an earnings review because it applies to increased energy efficiency incentives that are not yet spent.
- Prudence Review – Should be performed by the Commission Staff as part of their review of this deferral's annual reauthorization filing.
- Rate Spread/Rate Design – Revenues may be allocated to each cost-of-service schedule with the basis to be determined prior to amortization.
- Sharing – This deferral is not subject to a sharing mechanism.
- 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 (with exceptions) 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

Staff concludes that NW Natural's application meets the requirements of ORS 757.259. The Company should be allowed to defer pilot costs developed in conjunction with Commission regulatory policy goals of encouraging and increasing cost-effective energy efficiency. NW Natural has reviewed this memo and agrees with its content.

#### **PROPOSED COMMISSION MOTION:**

Approve NW Natural's application to defer costs associated with the third phase of its GeoTEE pilot program for the 12-month period beginning February 28, 2022.