

ITEM NO. CA8

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 5, 2022**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: March 23, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: NORTHWEST NATURAL:
(Docket No. ADV UM 2233)
Application for Authorization to Defer Costs Associated with
House Bill 2475.

STAFF RECOMMENDATION:

Approve Northwest Natural Gas Company's, dba Northwest Natural (NW Natural, NWN, or Company) application to defer costs and revenues associated with the Energy Affordability Act, for the 12-month period beginning on February 28, 2022.

Require NW Natural to establish a separate account to track and defer incremental administrative costs associated with rate mitigation measures authorized under HB 2475(7)(1).

DISCUSSION:

Issue

Whether the Commission should approve the Company's request for authorization to defer accounting of costs associated with the Energy Affordability Act (House Bill 2475).

Applicable Law

Under Oregon Revised Statute (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.

ORS 757.259(2)(e).

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. In OAR 860-027-0300(3), the Commission has set forth the requirements for the contents of deferred accounting applications. Notice of the application must be provided pursuant to OAR 860-027-0300(6).

In Order No. 05-1070, Docket No. UM 1147, the Commission determined that interest may accrue interest on deferred accounts at the authorized rate of return until amortization. Subsequent orders in Docket No. UM 1147 establish the rate during amortization. See Order Nos. 08-263 and 10-279.

ORS 757.230 provides the Commission authority to take certain considerations into account when determining a comprehensive classification of service for each public utility; including, the quantity used, the time when used, the purpose for which used, the existence of price competition or a service alternative, the services being provided, the conditions of service, differential energy burdens on low-income customers and other economic, social equity or environmental justice factors that affect affordability for certain classes of utility customers.

HB 2475(7)(1) provides that the Commission may address the mitigation of energy burdens through bill reduction measures or programs that may include, but are not limited to, demand response or weatherization.

Analysis

Background

In May 2021, the Governor of Oregon signed into law HB 2475, the Energy Affordability Act. Among other provisions, this bill amends ORS 757.230(1) to provide that the Commission's service classifications may take into account the "differential energy

burdens on low-income customers and other economic, social equity or environmental justice factors that affect affordability for certain classes of utility customers.” Under Section 2 of the bill, the Commission may address the mitigation of energy burdens through measures including customer classifications, tariff schedules, rates, and bill credits.

Description of Expense

On February 28, 2022, NW Natural filed a request for the Commission to authorize the deferral of costs and revenues for amounts associated with activities and programs developed pursuant to HB 2475. The proposed deferral includes administrative and operating costs associated with the Company’s planned income-eligible bill discount program; NW Natural proposes to use a balancing account to track the costs and revenues associated with HB 2475 activities and programs if authorized for deferred accounting in this application.

NW Natural expects to file the Company’s differential rate proposal for a low-income residential bill discount program in the coming months, with an effective date on or before November 1, 2022. The costs associated with this program are among those expected to be included in the Company’s deferral if the application is approved.

Proposed Accounting

NW Natural proposes to use a balancing account to track the costs and revenues associated with HB 2475 activities and programs.

NW Natural plans to account for the costs and revenues associated with HB 2475 activities and programs by recording them in a balancing account using Federal Energy Regulatory Commission (FERC) Account 186. In the absence of approval of deferred accounting, NW Natural would record relevant expense and revenue amounts in several accounts affecting the Company’s income statement and balance sheet.

The structure of the electric utilities’ deferrals for HB 2475 have been decided in Dockets No. UM 2219 and UM 2223. Staff held a workshop with Portland General Electric (PGE) and PacifiCorp (PAC) on February 17, 2022, to discuss the electric utilities’ deferrals and proposed cost recovery for their HB 2475 deferrals. By the end of that workshop, all parties agreed in principle to support the following structure of PAC’s and PGE’s HB 2475 deferrals:

- An Automatic Adjustment Clause (AAC) and balancing account would be applied to the revenues collected to fund the qualified bill discounts and the costs associated with the qualified bill discounts.

- This AAC would have a sunset date to allow parties to revisit cost recovery once the programs have had time to mature.
- Incremental administrative costs would be separately deferred and tracked for later ratemaking.
- All costs would accrue interest at the modified blended treasury (MBT) rate. Parties agreed that the use of the MBT rate for the administrative costs would not be precedential for future deferrals given the interim nature of the HB 2475 rate programs.

NW Natural's deferral filing in this docket is intended to support HB 2475 activities and programs, including a bill discount program that will be filed in April 2022 with cost recovery through an automatic adjustment clause (AAC) under ORS 757.210 with a balancing account. Given the similarity with the programs and deferrals proposed by Portland General Electric Company in Docket No. UM 2219 and PacifiCorp in Docket No. UM 2223, Staff believes that this treatment is appropriate for NW Natural as well to provide consistency across Oregon utilities.

Estimated Amounts

The Company is currently working on the design of its income-eligible bill discount program and developing the associated administrative budget and has not provided an estimate of the total expected deferral at this time.

Information Related to Future Amortization

- Earnings review
 - No earnings review is applicable due to the AAC.
- Prudence Review
 - A prudence review is also required and will be performed when updating the amounts for amortization under the AAC.
- Sharing
 - One hundred percent (100%) of the deferred costs are subject to utility recovery, pending prudence review.
- 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. The three percent test will not apply due to the AAC.

Conclusion

Based on discussions with the Company and Staff's review of NW Natural's application, Staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259(2)(e) and OAR 860-027-0300. This deferral will match appropriately the costs borne by and benefits received by customers and will minimize the frequency of rate change. Thus, Staff recommends the Commission authorize deferral of costs associated with HB 2475 for the 12-month period, beginning February 28, 2022, subject to the following conditions:

- Incremental administrative costs will be separately deferred and tracked for later ratemaking.
- All costs would accrue interest at the modified blended treasury (MBT) rate.

The Company has reviewed a draft of this memo and voiced no concerns.

PROPOSED COMMISSION MOTION:

Approve NW Natural's application request to defer costs associated with HB 2475 for the 12-month period beginning February 28, 2022.