

**PUBLIC UTILITY COMMISSION OF OREGON  
CONFIDENTIAL STAFF REPORT  
PUBLIC MEETING DATE: October 18, 2022**

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

DATE: October 10, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: NORTHWEST NATURAL:  
(Docket No. UM 2252)  
Requests authorization to defer costs of compliance with the Climate Protection Program.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Northwest Natural's (NW Natural, NWN, or Company) request for authorization to defer costs of compliance with the Climate Protection Program (CPP) for the 12-month period beginning August 15, 2022, through August 14, 2023.

**DISCUSSION:**

Issue

Whether the Commission should authorize NW Natural's request to defer for later ratemaking treatment the costs of compliance with the CPP.

Applicable Law

ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion 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).

In OAR 860-027-0300(3) the Commission has set forth the requirements for the contents of deferred accounting applications.

Under ORS 757.259(4), the Commission may be authorized for a period not to exceed 12 months. Amounts deferred under ORS 757.259 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. The commission may require that amortization of deferred amounts be subject to refund.

In Order No. 05-1070, Docket No. UM 1147, the Commission determined that interest may accrue 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, 10-279.

## Analysis

### *Background*

On December 16, 2021, the Oregon Department of Environmental Quality (ODEQ) adopted the CPP, which are administrative rules that set GHG reduction targets.<sup>1</sup> The CPP sets a declining limit, or cap, on greenhouse gas emissions from fossil fuels used throughout the state of Oregon, including diesel, gasoline, natural gas, and propane, used in transportation, residential, commercial, and industrial settings.

The CPP also regulates site-specific greenhouse gas emissions at large stationary sources, such as emissions from industrial processes. The program baseline is set at average greenhouse gas emissions from covered entities from years 2017-2019. Reductions from this baseline are set at 50 percent by 2035 and 90 percent by 2050.

As a natural gas local distribution company, NW Natural is a "covered fuel supplier" under the CPP and is the point of regulation for the emissions associated with gas used by its sales and transport customers. Transport schedule customers purchase the commodity they use directly from marketers and suppliers and have historically only paid NW Natural for delivery via the distribution system.<sup>2</sup>

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<sup>1</sup> OAR 340-271-0010-9000.

<sup>2</sup> OAR 340-271-0110(4). There is an exclusion for natural gas not used for combustion, as well as several other exclusions per OAR 340-271-0110(4)(b)(B).

In addition, covered entities' emissions are reported annually through the existing Department of Environmental Quality (DEQ) greenhouse gas reporting program and compliance will be demonstrated by each covered entity at the end of each three-year compliance period. To comply, covered entities like NW Natural can work to reduce usage through efficiency measures, introduce renewable and low carbon alternative fuels, trade for additional compliance instruments with other covered entities, or purchase a limited amount of Community Climate Investments ("CCIs").

In discussions with NW Natural related to Docket UG 456, NW Natural advised that the Company previously deferred costs associated with revenue generated from a new RNG contract under Docket UM 1496 and later transferred a portion of those revenues under UM 2252 for the benefit of transportation customers. In Staff's understanding, the Company asserts that the RNG costs are already approved for deferred accounting treatment within the weighted average cost of gas<sup>3</sup> and the UM 2252 application is splitting these amounts into a separate deferral for transportation customers.

#### *Description of Expense*

During the 12-month deferral period (August 15, 2022, to August 14, 2023) NW Natural anticipates compliance costs that will include increased planning activities such as studies, audits, etc., enhanced energy efficiency measures for all customers, renewable and low carbon alternative fuels, trade for additional compliance instruments with other covered entities, and/or purchase of a limited amount of CCIs. NW Natural is not seeking a prudence determination of any costs or revenues in this Application.

#### *Reason for Deferral*

The use of deferred accounting will minimize the frequency of rate changes and match appropriately the costs borne by, and benefits received by customers.

NW Natural seeks authorization to defer the expenses associated cost of compliance with the Climate Protection Program and allow the possibility of cost recovery for compliance with the program.

#### *Proposed Accounting*

Beginning on August 15, 2022, and ending 12 months from this date, NW Natural proposes to account for the costs associated with the CPP by recording the deferral in a FERC 186 account.

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<sup>3</sup> See *In the Matter of NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL*, Request to reauthorize deferral of costs related to demand, commodity and capacity costs for purchased gas cost mechanism, Docket No. UM 1496(11), filed 9/30/2021, for the 12-month period beginning November 1, 2021 through October 31, 2022.

*Estimate of Amounts*

Given that the CPP was recently adopted, NW Natural does not have a firm estimate of what amounts will be recorded in the CPP deferral account for the upcoming 12-month period.

Nevertheless, as part of the Natural Gas Fact Finding docket, UM 2178, NW Natural performed preliminary modeling on how it will comply with the CPP. This modeling was performed prior to the finalization of CPP rules and, due to the compressed timeframe of the docket, does not have the same level of detail as an Integrated Resource Plan. NW Natural filed its Integrated Resource Plan on September 23, 2022.

*Information Related to Future Amortization:*

Amounts deferred under ORS 757.259 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 a review of the utility's earnings. Staff's support of the deferral application does not indicate support for inclusion of any deferred amounts in rates. Staff reserves for later consideration the prudence of any amounts proposed for inclusion in rates and the application of an earnings review.

- Under ORS 757.259(6), the three percent test may be applied to measure the annual overall average effect on customer rates resulting from any requested deferral amortizations. The three percent test limits (subject to 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.

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Conclusion

Staff recommends approval of NW Natural's request for authorization to defer costs associated of compliance with the Climate Protection Program.

NW Natural has reviewed this memo and agrees with its contents.

**PROPOSED COMMISSION MOTION:**

Approve NW Natural's request for authorization to defer costs associated of compliance with the Climate Protection Program for the 12-month period beginning August 15, 2022, through August 14, 2023.

NWN UM 2252 CPP Deferral