

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
SPECIAL PUBLIC MEETING DATE: October 26, 2023**

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

**DATE:** October 9, 2023

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

**THROUGH:** Bryan Conway, Marc Hellman, Anna Kim, and Rawleigh White **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UM 2252(1))  
Approving reauthorization to defer Costs of Compliance with the Climate Protection Program.

**STAFF RECOMMENDATION:**

Staff recommends that the Oregon Public Utility Commission (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, 2023, through August 14, 2024.

**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 authorize deferrals 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.<sup>1</sup>

### 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>2</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 program is not inclusive of fossil fuel used in electric generation).

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.<sup>3</sup> Reductions from this baseline are set at 50 percent by 2035 and 90 percent by 2050.

According to the Company, the current deferral allows the Company to defer an accrued compliance obligation expense when the covered emissions exceed the CPP compliance instruments for that compliance period ("cap"). Even though the Company may purchase CCIs before exceeding the cap, these purchases would not be deferred under the currently approved deferral application but would be included in an inventory account on the Company's balance sheet until the CCIs are surrendered for compliance at the end of the compliance period, due to the current accrual basis of accounting that does not consider the timing of actual cash outflows associated with CPP compliance. Therefore, the Company is requesting to utilize the cash basis of accounting for this

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<sup>1</sup> ORS 757.259(5).

<sup>2</sup> OAR 340-271-0010.

<sup>3</sup> OAR 340-271-8100(3)(b).

deferral and to accrue interest based on the cash flow for CPP compliance in the regulatory deferral and not based on the accrued expense obligation, as it has a material impact on recovery of financing costs in a future proceeding.

In addition, 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.

#### *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.

#### *Description of Expense*

The Company does not have an estimate of what amounts will be recorded in the CPP deferral account for the upcoming 12-month period. The intricacy of this program requires a thorough examination of all compliance instruments, and the Company continues to evaluate how it will comply with the CPP.

#### *The Amount Deferral Last Year*

(\$2,672,843),<sup>4</sup> was deferred during the last deferral period year of August 15, 2022, and ending August 15, 2023.

#### *Proposed Accounting*

The Company proposes to defer the costs associated with the CPP by recording the deferral in a FERC 186 account.

#### *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)

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<sup>4</sup> NW NATURAL’S APPLICATION FOR REAUTHORIZATION TO DEFER COSTS OF COMPLIANCE WITH CPP.

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

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

The Company 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, 2023, through August 14, 2024.