

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: June 27, 2023**

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

**DATE:** June 7, 2023

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

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

**SUBJECT:** CASCADE NATURAL GAS:  
(Dockets No. UM 2257)  
Requests authorization to defer Climate Protection Plan compliance expenses.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Cascade Natural Gas Corporation's (Cascade, CNG, or Company) request for authorization to defer for later ratemaking treatment costs of compliance associated with the Climate Protection Plan (CPP), for the 12 months beginning on September 30, 2022, through September 29, 2023.

**DISCUSSION:**

Issue

Whether the Commission should approve Cascade's application to defer costs associated with CPP compliance.

Applicable Law

This Application is filed by Cascade pursuant to OAR 860-027-0300 and ORS 757.259(2)(e), requesting authorization to defer environmental costs and amounts from insurance recoveries because they are "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 to match appropriately the costs borne by and benefits received by ratepayers."

## Analysis

### *Background*

On December 16, 2021, the Oregon Department of Environmental Quality (ODEQ) adopted the CPP administrative rules that set greenhouse gas (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 program is not inclusive of fossil fuel used in electric generation).

The CPP also regulates site-specific GHG gas emissions at large stationary sources, such as emissions from industrial processes.<sup>2</sup>

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.<sup>3</sup>

The Company is a “covered fuel supplier” under the CPP and is the point of regulation for the emissions associated with natural gas used by its sales and transport customers.

Transport customers purchase the commodity they use directly from marketers and suppliers and have historically only paid Cascade for delivery via the distribution system. Covered entities’ emissions are reported annually through the existing ODEQ greenhouse gas reporting program and compliance will be demonstrated by each covered entity at the end of each three-year compliance period.<sup>4</sup>

### *Reason for Deferral*

Granting this deferral will minimize the frequency of rate changes and match appropriately the costs borne by, and benefits received by, customers, in accordance with ORS 757.259(2)(e).

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<sup>1</sup> OAR 340-271-0010 – 9000.

<sup>2</sup> OAR 340-271-0310.

<sup>3</sup> Rulemaking, Action Item A, Greenhouse Gas Emissions Program 2021 Rulemaking Climate Protection Program, on Dec 16, 2021, available at [https://www.oregon.gov/deq/EQCdocs/121621\\_ItemA.pdf](https://www.oregon.gov/deq/EQCdocs/121621_ItemA.pdf).

<sup>4</sup> OAR 340-271-0440.

### *Proposed Accounting*

The Company proposes to record the deferral as a regulatory asset in FERC Account 182.3 (Other Regulatory Assets), crediting FERC Account 407.4 (Regulatory Credits).

### *Estimate of Amounts*

The Company cannot estimate the costs of compliance associated with the Climate Protection Plan at this time.

### *Information Related to Future Amortization*

- Earnings review – Cost Recovery for costs associated with the costs of compliance with the Climate Protection Plan will be subject to an earnings review in accordance with ORS 757.259(5).
- Prudence Review – Will be performed by the OPUC Staff no later than the proceeding to authorize amortization of the costs associated with the costs of compliance with the Climate Protection Plan.
- Sharing – All prudently incurred costs are recoverable by Cascade with no sharing mechanism.
- Rate Spread/Design – Will be determined during the proceeding to authorize amortization of the costs associated with the deferral.
- Three or Six Percent Test (ORS 757.259(6)(7)(8)) – Amortization of the deferred costs will be subject to a three percent test in accordance with ORS 757.259(7) or possible six percent test in accordance with ORS 757.259(8) and with Commission authorization. These tests limit aggregated deferral amortizations during a 12-month period to no more than three or six percent of the utility's gross revenues for the preceding year.

### Conclusion

The CPP is new and CNG reasonably did not include costs to comply with the program in its revenue requirement during its last general rate case. Because the costs were not foreseeable at that time, they represent a scenario risk for which the costs at issue must be “material” to satisfy the Commission’s discretionary criteria for deferral.<sup>5</sup>

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<sup>5</sup> *In the Matter of the Public Utility Commission of Oregon Staff Request to Open an Investigation Related to Deferred Accounting*, UM 1147, Order No. 05-1070, p. 7 (October 5, 2005).

Based on Cascade's earnings in 2022, 100 basis points of Cascade's authorized ROE is equal to approximately \$700,000. As noted above, CNG is not able to estimate what amounts may be incurred to comply with the CPP. Based on these facts, and based on Given CNG's relatively low dollar benchmark for expenses that satisfy the "material" criteria, Staff recommends the Commission approve the request to preserve CNG's ability to share costs with customers costs of a legally mandated emissions program.

The Company's application meets the requirements of OAR 757.259 and OAR 860-027-0300, and the Commission's discretionary criteria. For these reasons, Staff recommends Commission approval.

The Company has reviewed this memo and agrees with its content.

**PROPOSED COMMISSION MOTION:**

Approve Cascade's application for authorization to defer CPP compliance costs, for the 12 months beginning on September 30, 2022, through September 29, 2023.