

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 5, 2023**

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

DATE: August 8, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway and Marc Hellman **SIGNED**

SUBJECT: NOTHWEST NATURAL:
Docket No. UM 2266
Approval to defer the Difference Between Forecast Cost of Service and Actual Cost of Service of Renewable Natural Gas Qualified Investments Under Schedule 198.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve NW Natural (Company) request for authorization to defer the difference between forecast cost of service and actual cost of service of renewable natural gas (RNG) qualified investments under Schedule 198 for 12 months, beginning December 30, 2022.

DISCUSSION:

Issue

Whether the Commission should approve the Company's request for authorization to defer the difference between forecast cost of service and actual cost of service of RNG qualified investments under Schedule 198.

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.

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. 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).

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. A review of the utility's earnings is required, unless subject to an automatic adjustment clause. With some exceptions, a company's amortization of amounts deferred cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. ORS 757.259(6).

Analysis

Background

Under Order No. 22-388, corrected by Order No. 22-437, in Docket UG 435, the Commission approved the establishment of an automatic adjustment clause (AAC) in Schedule 198 for RNG, specifically allowing for the deferral of costs between forecast RNG costs and actual RNG costs.¹ The Commission subsequently accepted NW Natural's compliance filing, which included the AAC—Schedule 198—with the modifications required in Order No. 22-388.²

As approved in Order No. 22-388, Schedule 198 “allow[s] for the deferral of costs between forecast RNG costs and actual RNG costs, but subject[s] that deferral to an earnings test that includes dead bands at 50 basis points below and above authorized ROE [return on equity].”

¹ *In the Matter of NW Natural, Request for a General Rate Revision*, Docket UG 435, Advice 20-19, Schedule 198 Renewable Natural Gas Recovery Mechanism, Dockets ADV 1215 and UG 411, Order No. 22-388 at 81-82 (Oct. 24, 2022).

² *In the Matter of NW Natural, Request for a General Rate Revision*, Docket UG 435, Advice 20-19, Schedule 198 Renewable Natural Gas Recovery Mechanism, Dockets ADV 1215 and UG 411, Acknowledged Utility Filing, available at: <https://edocs.puc.state.or.us/efdocs/UBH/ug435ubh163830.pdf>. (Oct. 31, 2022).

This Application, filed by NW Natural on December 20, 2022, is to establish such a deferral for all RNG qualified investments beginning on December 30, 2022. The difference in costs incurred prior to that time are included in the Company's Lexington RNG project deferral, which is currently the Company's only RNG qualified investment in rates.

Description of Expense

Consistent with Order No. 22-388, NW Natural requests that the Commission approve the deferral of the difference between the forecasted cost of its RNG qualified investments and the actual costs of those investments. The Company is unable to estimate the amount of the deferral.

Reason for Deferral

The Company is seeking this deferral as authorized in Order No. 22-388.

Proposed Accounting

The Company proposes to record the deferral amount in Account 186.

Information Related to Future Amortization

- Earnings Review – An earnings test with a deadband set at 50 basis points below and 50 basis points above authorized ROE will be applied consistent with Commission Order No. 22-388 authorizing the applicable RNG AAC.
- Prudence Review – Prudence review should be performed at the time of deferral amortization. The review should also include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Sharing will be governed consistent with Order No. 22-388 authorizing the applicable RNG AAC and any other applicable orders.

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

Staff concludes the Commission should approve NW Natural's request for authorization to defer the Difference Between Forecast Cost of Service and Actual Cost of Service of Renewable Natural Gas Qualified Investments Under Schedule 198.

The Company has reviewed this memo and has no objection.

PROPOSED COMMISSION MOTION:

Approve NW Natural's application request for authorization to defer costs associated with Difference Between Forecast Cost of Service and Actual Cost of Service of Renewable Natural Gas Qualified Investments Under Schedule 198 for 12 months, beginning December 30, 2022.