



# Oregon

Tina Kotek, Governor

## Public Utility Commission

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October 26, 2023



BY EMAIL

Northwest Natural Gas Company

[efiling@nwnatural.com](mailto:efiling@nwnatural.com)

RE: Advice No. 23-20A

At the public meeting on October 26, 2023, the Commission adopted Staff's recommendation in this matter docketed as UG 487. The Staff Report and a receipted copy of the sheets in your advice filing are attached.

Nolan Moser

Chief Administrative Law Judge

Public Utility Commission of Oregon

(503) 378-3098

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

**REGULAR**  **CONSENT**  **EFFECTIVE DATE** November 1, 2023

**DATE:** October 16, 2023

**TO:** Public Utility Commission

**FROM:** Curtis Dlouhy

**THROUGH:** Bryan Conway, Marc Hellman, Anna Kim, and Scott Gibbens **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UG 487/Advice No. 23-20A)  
Revises Schedule 198, Renewable Natural Gas Automatic Adjustment Clause.

**STAFF RECOMMENDATION:**

The Oregon Public Utility Commission (Commission) should approve Northwest Natural Gas Company's (NW Natural, NWN, or Company) proposed Schedule 198 tariff revisions, as described in Docket No. UG 487, effective for service rendered on and after November 1, 2023.

**DISCUSSION:**

Issue

Whether the Commission should approve NW Natural's request to revise Schedule 198, Renewable Natural Gas Automatic Adjustment Clause (RNG AAG).

Applicable Rule or Law

ORS 757.205 requires public utilities to file all rates, rules, and charges with the Commission. ORS 757.210 provides that the Commission may approve tariff changes if they are fair, just, and reasonable. Filings that make any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the changes.

ORS 757.259(5) states that unless subject to an automatic adjustment clause, amounts deferred under ORS 757.259 shall be allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. The Commission may require that amortization of deferred amounts be subject to refund. The Commission's final determination on the amount of deferrals allowable in the rates of the utility is subject to a finding by the Commission that the amount was prudently incurred by the utility.

With certain exceptions, ORS 757.259(6) states that the overall average rate impact of the amortizations authorized under this section in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year.

OAR 860-022-0025 requires that revised tariff filings include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.

OAR 860-022-0030 requires that tariff filings which result in increased rates include statements showing the number of customers affected, the annual revenue under existing schedules, the annual revenue under proposed schedules, the average monthly bills under existing and proposed schedules, and the reasons supporting the proposed tariff.

### Analysis

#### *UG 487 As Filed*

On July 31, 2023, NW Natural filed its Advice No. 22-20 to request an update to its RNG AAC in Schedule 198 for inclusion in rates effective November 1, 2023. The Company updates this schedule annually with its Purchased Gas Adjustment (PGA) filing. NW Natural's Schedule 198 recovers the costs of its RNG investments. To date, Schedule 198 has only been used to recover the costs of its Lexington facility. Lexington was deemed prudent by the Commission in Order No. 22-388 in the Company's last general rate case, UG 435.<sup>1</sup> In that order, the Commission also adopted proposals that allow the RNG AAC to be updated only on November 1 of each year, that project costs should not be deferred between the in-service and rate-effective dates, and that any difference between forecasted and actual RNG costs be subject to a deferral with an earnings test with a 50 basis point deadband.<sup>2</sup>

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<sup>1</sup> Order No. 22-388, page 62.

<sup>2</sup> Order No. 22-388, page 82.

In UG 487, the Company updates the parameters associated with its Lexington facility that was initially put into rates on November 1, 2022. The Company filed replacement sheets on September 14, 2023, that updated its deferral calculation and added a non-combustion related rate.<sup>3</sup> Staff has found no issues with these updated workpapers and finds that the values reflected in the workpapers appear to be consistent with the RNG AAC language approved in Order No. 22-388.

The net effect of this filing increases the Company's Oregon revenues by 0.12 percent and would recover \$0.00249 per therm through Schedule 198 based on forecasted revenue requirement, true-up deferral from last year's forecast and the sharing deferral from the Company's Lexington renewable natural gas project of \$2,773,939.<sup>4</sup> The Company's forecasted revenue requirement, true-up deferral from last year's forecast and the sharing deferral for the recovery of the Lexington RNG project in the September 14 filing is included below.

**NW Natural**  
**Rates & Regulatory Affairs**  
**2023-2024 PGA Filing - Oregon: September Filing**  
**PGA Effects on Revenue**  
**UG 487: Renewable Natural Gas Adjustment Mechanism**

	<b>Including Revenue Sensitive Amount</b>
1	
2 <b><u>Permanent Increments</u></b>	
3	
4 <u>Removal of Current Permanent Increments</u>	
5 Schedule 198 Amounts	(\$1,719,294)
6	
7 <u>Addition of Proposed Permanent Increments</u>	
8 Schedule 198 Amounts	2,773,939
9	
10	
11 <b>TOTAL OF ALL COMPONENTS OF RATE CHANGES</b>	<b><u>\$1,054,645</u></b>
12	
13	
14 2022 Oregon Earnings Test Normalized Total Revenues	\$849,278,042
15	
16 Effect of this filing, as a percentage change (line 11 ÷ line 14)	0.12%

***Expected Effects of UG 462***

When discussing UG 487, Staff feels it necessary to highlight the ongoing docket investigating the prudence and cost recovery of the Dakota City RNG project in UG 462. While a Commission Order has not been filed as of writing this memo, parties have

<sup>3</sup> See the Company's filing in UG 487 on September 14, 2023.

<sup>4</sup> Page 9 of the Company's September 14, 2023 filing.

reached an all-party settlement on the prudence of the Dakota City RNG project and its cost recovery. Parties filed joint testimony in support of the stipulation on August 30, 2023.<sup>5</sup>

Should the Commission ultimately adopt the Parties' stipulation in UG 462, the costs of the Dakota City RNG project would also go into rates on November 1, 2023. According to the Company's initial filing in UG 462, the Company seeks to recover an additional revenue requirement of \$2,065,374 associated with the Dakota City RNG project.<sup>6</sup> Docket No. UG 462 – Parties Comprehensive Stipulation, Attachment 2 contains a breakdown of the Dakota City revenue requirement and is reproduced below. This would be recovered on a \$0.00186 per therm rate spread among all customer classes. The breakdown of costs from Parties Comprehensive Stipulation in UG 462 is included below.

NW Natural - Dakota City - UG 462 Stipulation  
 Determination of Cost of Service  
 Dakota City RNG Costs from Nov 2023 - Oct 2024

NW Natural/Exhibit 201  
 Bourdo & Walker / Page 1

	Year 1
Depreciation	416,718
O&M	849,898
Property Taxes	180,231
<b>Taxes on Equity Return</b>	
State and Federal Income Taxes	(230,950)
<b>Total Taxes</b>	<b>(230,950)</b>
<b>Return on Rate Base</b>	
Debt and Equity Return	792,870
<b>Total Return</b>	<b>792,870</b>
<b>Subtotal Cost of Service</b>	<b>2,008,767</b>
<b>Revenue Sensitive Items</b>	<b>56,607</b>
<b>Total Cost of Service - Annual</b>	<b>\$2,065,374</b>

Combined Overall Tax Rate (OR & Fed)	27.004%		
Property Tax Rate	1.500%		
Franchise Taxes	2.291%		
Commission Fee	0.430%	2.818% <small>↳ (rev sens rate)</small>	
Uncollectible Rate	0.097%		
	<b>Capital</b>		
	<b>Structure</b>	<b>Rates</b>	<b>Post-Tax</b>
Long-Term Debt	50.000%	4.271%	2.136%
Common Equity	50.000%	9.400%	4.700%
ROR			6.836%
Bonus Depreciation?	NO	0% <small>⇒ At 0%, no bonus depreciation.</small>	
Non-Bonus		100%	

While any final rate impacts cannot be determined until the conclusion of UG 462, for informational purposes, Staff provides an estimated total Schedule 198 rate impact should the Commission ultimately adopt Parties' recommendation to approve the Dakota City RNG project as filed with no additional changes. Should this occur, Staff estimates that the total Schedule 198 rate inclusive of Lexington and Dakota City would be approximately \$4.8 million or \$0.00435 per therm, which would increase the Company's Oregon revenues by 0.37 percent in total.

Staff notes that a Commission order in UG 462 is expected prior to the Special Public Meeting for the Purchased Gas Adjustments on October 26, 2023. Once an Order is

<sup>5</sup> See UG 462, Parties' Joint Testimony in Support of Stipulation, filed on August 30, 2023.

<sup>6</sup> See UG 462, Parties' Comprehensive Stipulation, Attachment 2

issued, Staff intends to verify any amounts included in rates from the Dakota City RNG Project and be prepared, to the extent feasible, to provide updated values that reflect final revenue requirement and rates at the Special Public Meeting.

### Conclusion

Staff finds that the revisions proposed in this filing regarding the Lexington RNG project meet the requirements of applicable law and previous Commission Orders. Based on its review of this filing and the associated work papers, Staff recommends approval of NW Natural's proposed rates associated with Lexington in Schedule 198.

### **PROPOSED COMMISSION MOTION:**

Approve NW Natural's proposed revisions to Schedule 198, Renewable Resource Automatic Adjustment Clause, with Advice No. 23-20A, effective for service rendered on and after November 1, 2023.



# NORTHWEST NATURAL GAS COMPANY

P.U.C. Or. 25

First Revision of Sheet 198-1  
Cancels Original Sheet 198-1

## SCHEDULE 198 RENEWABLE NATURAL GAS ADJUSTMENT MECHANISM

### **PURPOSE:**

The purpose of this Schedule is to identify adjustments to rates in the Rate Schedules listed below for the recovery of the revenue requirement of qualified investments, as defined by ORS 757.392(5), in renewable natural gas (RNG) infrastructure.

This adjustment mechanism will recover the revenue requirement associated with the prudently incurred qualified investments that contribute to the Company meeting the targets set forth in ORS 757.396. For purposes of this Schedule, "qualified investment" has the meaning given that term in ORS 757.392. This Adjustment Schedule is implemented as an automatic adjustment clause as provided for under ORS 757.210 and Oregon Senate Bill 98 (2019) codified as ORS 757.396.

### **APPLICABLE:**

To All Customers on the Rate Schedules of this Tariff listed below:

Rate Schedule 2	Rate Schedule 31	Rate Schedule 60A/60	(N)
Rate Schedule 3	Rate Schedule 32		
Rate Schedule 27	Rate Schedule 33		

### **Application to Rates:**

Non-Combustion-Related Rate on Schedule 60A/60: \$(0.00152) per therm (N)

The per-therm Base Adjustment in the applicable Rate Schedules include the following adjustment:

	All Customers	Effective Date:	(C)
Schedule 198 amortization	\$0.00249	November 1, 2023	(C)(I)

### **SPECIAL CONDITIONS:**

- The Company will file this Schedule by August 1 of each year as necessary to update all charges already included on this schedule as needed. Updating of charges will include updating for the relevant vintage of the revenue requirement for previously included investments and a true-up for actual costs and volumes of previously included costs. This updating of charges will be supported by a deferral application (Schedule 198 Deferral) that will apply to costs recovered through this Schedule 198. The amortization of the Schedule 198 Deferral amount will be subject to an earnings test deadband. Per Order No. 22-388, the deadband is set at 50 basis points below and 50 basis points above authorized ROE. (T)  
(T)

(continue to Sheet 198-2)

Issued September 14, 2023  
NWN OPUC Advice No. 23-20A

Received  
Filing Center  
SEP 14 2023

Effective with service on  
and after November 1, 2023