

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 2192, UM 2192(1)(2)(3)

In the Matter of

NORTHWEST NATURAL GAS  
COMPANY, dba NW NATURAL,

Application for Authorization and  
Reauthorization to Defer Accounting for  
TSA Security Directive 2 Compliance  
Expenses.

ORDER

**DISPOSITION: STAFF'S RECOMMENDATION ADOPTED**

At its public meeting on October 1, 2024, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

**Alison Lackey**  
Chief Administrative Law Judge



A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. CA8

**PUBLIC UTILITY COMMISSION OF OREGON  
REDACTED STAFF REPORT  
PUBLIC MEETING DATE: October 1, 2024**

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

**DATE:** September 4, 2024

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

**THROUGH:** Caroline Moore, Scott Gibbens, and Michelle Scala **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UM 2192, UM 2192(1), UM 2192(2), and UM 2192(3))  
NW Natural's Application to Defer Accounting for TSA Security Directive 2  
Compliance Expenses.

**STAFF RECOMMENDATION:**

Staff recommends the Public Utility Commission of Oregon (Commission) approve four separate Northwest Natural (NWN or Company) Applications to defer Accounting for TSA Security Directive 2 Compliance Expenses. Staff recommends approval of the request in UM 2192, and the reauthorization requests in UM 2192(1) and UM 2192(2), for the 12-month periods beginning September 2, 2021; September 2, 2022; September 2, 2023; and September 2, 2024, respectively.

**DISCUSSION:**

Issue

Whether the Commission should approve the Company's requests for authorization and reauthorization to defer costs associated with Accounting for TSA Security Directive 2 Compliance Expenses for later inclusion in rates.<sup>1</sup>

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<sup>1</sup> See, In re Pub. Util. Comm'n of Or. Investigation of the Scope of the Commission's Authority to Defer Capital Costs, Docket No. UM 1909, Order No. 20-147 at 3, 11 (April 30, 2020) (ORS 757.259 "empowers the Commission to authorize the deferral of capital project costs, including depreciation expense and financing costs.").

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### Applicable Law

ORS 757.259 empowers the Commission to authorize the deferral of expenses or revenues of a public utility for later inclusion in rates. The Commission has established rules implementing this statute in OAR 860-027- 0300, including specific requirements for deferred accounting applications.

### Analysis

#### *Background*

The TSA issued two security directives addressing cybersecurity issues for critical pipeline owners and operators: Security Directive Pipeline-2021-01 (“Security Directive 1”) and Security Directive 2. As an owner and operator of critical pipelines, NW Natural must comply with these directives, and in the four applications, NW Natural seeks to defer costs associated with implementation of Security Directive 2.

The TSA issued Security Directive 2, requiring designated owners and operators to:

- (1) implement specific mitigation measures to protect against ransomware attacks and other related threats;
- (2) develop and implement a cybersecurity contingency and response plan; and,
- (3) perform a cybersecurity conduct architecture design review.

The Company states in its applications that it is implementing Security Directive 2 and expects to continue incurring expenses to comply with these requirements. The Company recognizes the importance of TSA security directives given the increase in cybersecurity incidents targeting the energy industry and the role the Company plays as an owner and operator of critical pipeline infrastructure. The Company expects to continue to incur significant compliance costs due to the comprehensive aims and reach of Security Directive 2.<sup>2</sup>

Furthermore, The TSA issued Security Directive 2 on July 20, 2021, and has been subsequently amended several times, most recently on July 26, 2024.<sup>3</sup>

In addition, Staff asked the company a few questions related to this docket. On Information Request (IR) No.14, Staff asked:

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<sup>2</sup> See, Highly Confidential Information Request No.10.

<sup>3</sup> See, <https://www.tsa.gov/sites/default/files/tsa-security-directive-pipeline-2021-02e-and-memo-508c.pdf>.

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Have any of the costs associated with the deferral filings been recovered through amortization or incorporated in base rates? Please explain and identify, by calendar year, beginning September 2, 2021, and ending December 31, 2023:

- a) the amounts deferred in the calendar year;
- b) the interests accrued in the calendar year;
- c) the amounts recovered through rates or amortization.

The Company responded as follows:

**[BEGIN CONFIDENTIAL]** [REDACTED]  
**[END CONFIDENTIAL].**

*Reason for Deferral*

ORS 757.259 is a “statutorily authorized exception to the general prohibition against retroactive ratemaking” that provides a “means to address utility expenses or revenues outside of the utility’s general rate case proceeding.”

Also, the Company states this deferral matches the costs borne and benefits received by customers.

*Expenses*

**[BEGIN CONFIDENTIAL]** [REDACTED]  
[REDACTED]  
[REDACTED]

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[REDACTED] **[END CONFIDENTIAL]**.<sup>4</sup>

In addition, TSA cybersecurity requirements would integrate/interface with NWN's current Horizon enterprise system or any other replacement project. and NWN propose to track expenses as separate and incremental to the Horizon project or any other IT project presently included in rates.<sup>5</sup>

*Proposed Accounting*

Beginning on the date of its original deferral application, NW Natural proposes to account for the expenses incurred because of TSA Security Directive 2 compliance on the company's balances sheet, to later be included in customer rates.

*Estimate of Amounts on Previously Years.*

**[BEGIN HIGHLY CONFIDENTIAL]**

[REDACTED]

**[END HIGHLY CONFIDENTIAL]**<sup>6</sup>

*Estimate of Amounts*

NW Natural's current estimate of Security Directive 2 expenses, September 2, 2021, ending September 1, 2022, is approximately **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**; September 2, 2022, ending September 1, 2023, is approximately **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**, respectively; and September 2, 2023, ending September 1, 2024, approximately **[BEGIN CONFIDENTIAL]** [REDACTED] **[END CONFIDENTIAL]**. The Company does not have estimates for the period from September 1, 2024 to September 1, 2025, since this

<sup>4</sup> See, UM 2192 OPUC Confidential Information Request. No. 11.

<sup>5</sup> See, UM 2192 OPUC Highly Confidential Information Request No. 12.

<sup>6</sup> See UM 2192 OPUC Highly Confidential Information request No.13.

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is based on many unknown factors surrounding the TSA and therefore is a rough estimate.

#### *Amortization*

The interest rate for deferral accounts is 6.836 percent, and an estimate of the upcoming PGA-period deferral and/or amortization.

The Company is unable to estimate the amount to be deferred during the next PGA cycle due to the TSA's ongoing amendments to the directive. The Company's intent is to amortize for collection all that is deferred.

Also, the Company states this deferral application is not seeking to amortize costs into rates, but to defer incremental costs, not currently in rates, for later prudence review and rate making treatment.<sup>7</sup>

#### *Information Related to Future Amortization*

- Earnings Review – Staff recommends an earnings test be applied to these costs.
- Prudence Review – A prudence review should be performed at the time of deferral amortization.
- Sharing – No sharing is recommended by Staff as these are costs to comply with federal security directives.
- Rate Spread/Design – Staff recommends the deferred amounts will be spread based on an equal percentage of margin basis.
- Three Percent Test (ORS 757.259(6)) – The amortization is applicable to the three percent test.

#### Conclusion

As the Company's application meets the requirements of ORS 757.259 and OAR 860-027-0300, and the reason for the deferrals are valid, Staff recommends the Commission approve NW Natural's applications.

Staff also reviewed confidential and highly confidentially Information request and Staff supports these applications.

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<sup>7</sup> See, UM 2192 OPUC Information Request No. 9.

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**Note:** These Applications have been served to all parties who participated in the Company's last rate case, Docket No. UG 435.

The Company has reviewed a draft of this memo and has no concerns.

**PROPOSED COMMISSION MOTION:**

Approve four separate Northwest Natural (NWN or Company) Applications to defer Accounting for TSA Security Directive 2 Compliance Expenses, UM 2192, UM 2192(1), UM 2192(2), and UM 2192(3), for the 12-month periods beginning September 2, 2021; September 2, 2022; September 2, 2023; and September 2, 2024, respectively.

NWN UM 2192, UM 2192(1), UM 2192(2), and UM 2192(3)