

ORDER NO. 24-335

ENTERED Oct 01 2024

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2266(1)

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

Request for Reauthorization to Defer the
Difference Between Forecast Cost of
Service and Actual Cost of Service of
RNG Qualified Investments Under
Schedule 198.

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. CA9

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

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

DATE: September 23, 2024

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 2266(1))
Request for Reauthorization 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 Northwest Natural Gas Company's (NW Natural or Company) request for reauthorization 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 January 16, 2024.

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:

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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.

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

On July 15, 2019, Senate Bill 98 (ORS 757.390-398) was enacted to facilitate the acquisition of Renewable Natural Gas (RNG) by allowing natural gas utilities to fully recover their prudently incurred costs associated with such acquisitions.¹

For a "large natural gas utility," such as NW Natural, ORS 757.396 also includes certain voluntary RNG targets. These targets are phased in over time, starting at five percent of Oregon sales in 2020 and gradually increasing to 30 percent by 2045.

Per ORS 757.396(2)(a), NW Natural sought to recover its qualified investments in RNG, as well as the operating costs of such investments, through an automatic adjustment clause ("AAC").

On October 24, 2022, the Commission approved the AAC in Order No. 22-388 with several modifications. The Commission subsequently accepted NW Natural's compliance filing, which included the AAC—Schedule 198—with the modifications required in Order No. 22-388.

¹ See, ORS 757.394; ORS 757.396(2).

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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.

Reason for Deferral

This filing, submitted on January 16, 2024, has the Company seeking reauthorization of a deferral to capture the difference in RNG costs applicable to Schedule 198 as directed in Order No. 22-388.

Proposed Accounting

The Company proposes to account for the costs associated with the Lexington Project by recording the deferral in Account 186.

Description of Expense

NW Natural seeks to defer the difference between the forecasted cost of service and the actual cost of service of its RNG qualified investments under Schedule 198, Renewable Natural Gas Adjustment Mechanism, for the twelve months beginning January 16, 2024. A similar authorization was last granted on September 11, 2023, under Commission Order No. 23-328, authorizing a deferral for the 12 months beginning December 30, 2022:

<u>Accounts</u>	<u>For the period of Jan. 1, 2023 - I</u>	
	<u>Deferrals/Amort.</u>	<u>Interest Accrued</u>
<u>Deferrals:</u>		
151930 - RNG Investments Recovery Deferral	483,599.78	6,274.73
151931 - RNG Investment Deferral - Lexington Sharing	(333,021.35)	(10,618.39)
151928 - Lexington Initial Costs Deferral	881,091.08	45,284.60
Total	<u>1,031,669.51</u>	<u>40,940.93</u>
<u>Amortizations:</u>		
151942 - RNG Investments Recovery Amortization	(63,514.02)	2,955.05
151944 - Lexington Initial Costs Amortization	(52,305.67)	2,445.85
151943 - RNG Investment Amortization - Lexington Sharing	28,020.88	(1,212.78)
Total	<u>(87,798.81)</u>	<u>4,188.12</u>

Estimate of Amounts

While there is no estimate provided for the deferral amounts for the requested 12-month period starting January 16, 2024, \$1,072,610 was deferred during the period of January 1, 2023 through December 31, 2023. This amount includes \$40,940 of interest.

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Staff will review any future amortization request to ensure amounts incurred between December 31, 2023 and January 16, 2024 are not included in the deferred accounting.

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 reauthorization 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 January 16, 2024.

NWN UM 2266(1)