

ORDER NO. 25-030

ENTERED Feb 05 2025

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 2324

In the Matter of

NORTHWEST NATURAL GAS  
COMPANY, dba NW NATURAL,

Application for Authorization to Defer  
Costs Associated with a Residential and  
Small Commercial Demand Response  
Program.

ORDER

**DISPOSITION: STAFF'S RECOMMENDATION ADOPTED**

At its public meeting on February 4, 2025, 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:



Katharine Mapes on behalf of  
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: xxx, 2025**

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

**DATE:** January 15, 2025

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

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

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UM 2324)  
Defer Costs Associated with a Residential and Small Commercial Demand Response Program.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Northwest Natural Gas Company's (NW Natural or the Company) request to authorize the deferral of costs associated with a Residential and Small Commercial Demand Response Program, for the 12-month period beginning May 15, 2024.

**DISCUSSION:**

Issue

Whether the Commission should approve the Company's request for authorization to defer costs associated with its Residential and Small Commercial Demand Response Program.

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.

Docket No. UM 2324  
January 15, 2025  
Page 2

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

ORS 757.259(2)(e) grants the Commission discretion to authorize a deferral of “[i]dentifiable 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.”

The Commission applies “a flexible, fact-specific approach” to determining whether deferred accounting meets either prong of this two-part test.<sup>1</sup>

## Analysis

### *Background*

In NW Natural’s 2022 IRP, docketed as LC 79, the Company included an action item focused on a potential new “non-pipeline solution” system capacity and distribution system planning tool, aimed at reducing load during high demand periods through a demand response program for residential and small commercial customers.

Specifically, the Action Plan included the following: “Scope a residential and small commercial demand response program to supplement our large commercial and industrial programs and file by 2024.”

Staff recommended acknowledgement of the action item, which the Commission did in Order No. 23-281. Order No. 23-281 also strongly encouraged NW Natural to pursue locational demand response programs to minimize system upgrades where appropriate.

Per the order, NW Natural is first pursuing a systemwide residential and small commercial demand response program and intends to file a status update with the IRP update later this year. NW Natural then intends to pursue development of locational demand response programs consistent with Commission direction.

Since these programs are still under development, the Company believes it would be premature to fully discuss how they would interact at this time. The systemwide program, however, would be available to all residential and small commercial customers and is intended to reduce demand at the system level to mitigate or avoid service disruptions when extreme weather events occur or when gas prices in the market are extremely high.

---

<sup>1</sup> See Order No. 05-1070 at 5.

Docket No. UM 2324  
January 15, 2025  
Page 3

Separately, NW Natural will pursue developing geographically targeted programs focused on eligible customers in specific areas, where NW Natural's distribution capacity is projected to be constrained in the near future.

**Note:** Staff is recommending a sharing of costs in this instance because the PGA has a sharing construct for all gas purchased cost. The demand-side measures will affect natural gas costs. The 90/10 sharing, customers/Company, was selected to reflect a modest level of sharing. The sharing will also align the interests of the Company and customers.

#### *Description of the Expenses*

The Company is planning to defer costs associated with developing, implementing, and evaluating a demand response program for its residential and small commercial customers. Specifically, NW Natural plans to hire two different vendors.

The first vendor will design and implement the demand response program, which the Company currently envisions as initially including a "Bring-Your-Own Thermostat (BYOT)" offering where residential and small commercial customers may voluntarily choose to enroll in the program. Participating customers will agree to allow NW Natural to lower their existing smart thermostat setpoints by several degrees in exchange for an incentive.

The second vendor will provide independent evaluation, measurement and verification of load and energy savings from this systemwide program.

The Company is also seeking to defer administrative, customer communication and marketing engagement, and IT&S costs associated with developing the program. In addition, this Application seeks to defer the operating costs of both programs. General demand response will interact with and support future locational demand response programs. This geographically targeted program would seek to test demand response as a non-pipeline alternative to lower peak demand in order to avoid or defer the need for distribution system expansion in a localized area. NW Natural plans to provide further details on how these two programs interact in subsequent filings.

#### *Reason for Deferral*

The deferral mechanism is used to better match the costs borne and benefits received by customers.

#### *Proposed Accounting*

Beginning on the date of this filing, and ending 12 months from this date, NW Natural proposes to defer the expenses incurred as a result of a systemwide demand response

Docket No. UM 2324  
January 15, 2025  
Page 4

program for residential and small commercial customers the Company's balance sheet, to later be included in customer rates.

*Estimate of Amounts*

NW Natural anticipates incurring approximately \$1.0- \$1.5 million in costs during the 12-month deferral period.

*Information Related to Future Amortization*

- Earnings Review – Staff recommends an earnings test be applied to this deferral.
- Prudence Review – A prudence review should be performed at the time of deferral amortization.
- Sharing Percentages – Staff will recommend at the time of amortization that prudently incurred cost and benefits will be collected/refunded from/to customers with a 90/10 sharing. Staff recommends a sharing mechanism for this deferral to align the interests of customers and the company as well as recognizing there is a sharing mechanism in place for purchasing natural gas costs.
- Rate Spread/Rate Design – The Commission considers whether the expense was foreseeable and therefore could have been modeled in rates.

Conclusion

Staff concludes that Northwest Natural's authorization request meets the requirements of ORS 757.259 and OAR 860-027-0300.

The Company has reviewed this memo and has voiced no concerns.

**PROPOSED COMMISSION MOTION:**

Approve Northwest Natural Company's (NWN or Company) request to authorize the deferral regarding Costs Associated with a Residential and Small Commercial Demand Response Program, for later ratemaking treatment for the 12-month period beginning May 15, 2024.