

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 2311(1)

In the Matter of

NORTHWEST NATURAL GAS COMP
ANY, dba NW NATURAL,

Application for Authorization to Defer
Certain Costs Associated with the Meter
Modernization Program.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on March 27, 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:

A handwritten signature in blue ink, appearing to read "Alison Lackey".

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. CA13

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 27, 2025**

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

DATE: March 5, 2025

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Scott Gibbens and Michelle Scala **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 2311(1))
Defer for later ratemaking treatment operations and maintenance (“O&M”) costs associated with the Company’s Meter Modernization Program (“MMP”)

STAFF RECOMMENDATION:

Staff recommends the Oregon Public Utility Commission (the Commission) approve Northwest Natural Gas Company’s (NW Natural or the Company) application to defer costs associated with the Company’s Meter Modernization Program (“MMP”), for the 12-month period beginning January 28, 2025.

DISCUSSION:

Issue

Whether the Commission should approve the Company’s request for authorization to defer costs associated with Company’s Meter Modernization Program (“MMP”).

Applicable Law

ORS 757.259 allows the Commission to authorize deferred accounting for later incorporation into 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 fluctuations of rate levels or to

Docket No. UM 2311(1)
March 5, 2025
Page 2

match appropriately the costs borne by and benefits received by ratepayers.”
ORS 757.259(2)(e).

OAR 860-027-0300 generally sets forth the Commission’s application requirements for deferrals and amortization of deferred amounts.

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred are allowed in rates 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’s final determination on deferred amounts allowable in the rates of the utility is subject to a finding by the Commission that the amount was prudently incurred by the utility. ORS 757.259(5).

Analysis

Background

This filing, submitted on January 28, 2025, is the first reauthorization request. The initial application, submitted on January 2, 2024, was approved by the Commission in Order No. 25-063, issued on February 19, 2025.

The MMP is a four-year project from **2023 to 2027** that focuses on replacing NW Natural’s metering assets, including the meter communication devices—called encoder receiver transmitters (ERTs)—and meters that drift above or below the actual usage—called Periodic Cause of Change (PCC) meters.

The approximate population of eligible ERTs for replacement is 490,000. In reviewing this selection of ERT replacements, the Company determined that approximately 90,000 units will need a full meter replacement as well.

The Company operates a metering system containing a mix of residential, commercial, and industrial meters. The meters are located on the premises of the customer, and The Company has traditionally had a system-wide mix of diaphragm, rotary, and turbine meters, which are all mechanical meters. Since the implementation of the MMP however, NW Natural has begun installing ultrasonic meters, which do not rely on any moving parts like mechanical meters and use ultrasonic waves to measure gas flow with less frequent maintenance.

Docket No. UM 2311(1)
March 5, 2025
Page 3

In its current rate case, Docket No. UG 520, The Company has proposed to recover capital expenditures in the MMP and to begin separately amortizing the O&M expenses that are considered for deferral in this Staff report.

Description of Utility Expense

The expense preliminary estimate for Oregon-allocated costs including in this deferral are.

- “Meter and ERT replacement: \$5.0 million. Southern Cross’ installation labor costs for approximately 30 field-techs and supporting positions working across NW Natural’s service territory to replace PCC meters and end-of-life ERTs.
- ERT and PCC Hardware Recycling: \$2.6 million: Shipping and recycling approximately 400,000 lithium-ion batteries in ERTs and shipping, testing, and recycling of approximately 90,000 PCC meters and ERTs. Due to the materials in meters and ERTs, we cannot “dispose” of these items without environmental impact and must do so in accordance with applicable regulations.
- Incremental Non-field Labor: \$4.1 million: Includes incremental resource costs (non-field) to support the MMP. These positions will provide support in customer call support with increased customer touch points, scheduling support, billing support, internal change communication, external communications, quality assurance inspection of installations, meter shop support, and support in deploying field techs for change outs. Each of these roles carries an incremental burden for the project due to the elevated number of ERT and meter change outs required during the coming four-year period. The resources identified will be backfilled during the duration of the project to allow for continued operations of business-as-usual work with additional contractor support from Ernst and Young.
- Other external expenses: \$0.54 million. Includes bill inserts and door hangers related to the socialization of MMP to our customer base. Due to the increased presence of field workers during the four-year deployment, we will need to inform customers of the reasoning for trucks and field technicians being in their neighborhoods.”¹

Reason for Deferral

This deferral would minimize the frequency of rate changes by appropriately matching the costs borne by, and benefits received by its ratepayers.

¹ See, Initial application, Page No. 5, NW Natural’s application for deferred accounting, Description of the Expenses.

Docket No. UM 2311(1)
March 5, 2025
Page 4

The company further states that the recovery of its MMP costs after the project is complete will also align the project's cost and benefits.

The Company further notes that this is a significant one-time O&M cost associated with implementing the MMP over a four-year project period. Staff agrees that the O&M costs are more appropriately handled in a deferral, rather than in rate base, considering the brief operation of the MMP and the potential to over-estimate costs should the Company not come back for a rate case in the near future.

Moreover, deferring the O&M costs for the MMP for recovery after the project is complete will also align the project's costs and benefits, consistent with ORS 757.259(2)(e)'s matching principle.

Proposed Accounting

The Company would record O&M costs associated with the implementation of the MMP in the Federal Energy Regulatory Commission ("FERC") 878 expense account (Meter and House Regulator Expenses), FERC 382 expense account (Meter Installation), or FERC 384 expense account (House Regulator Installations).

Estimate of Amounts

NW Natural anticipates incurring approximately \$14.2 million in MMP O&M implementation expenses by December 2027. The \$14.2 million is the total cost estimate for the entire program over the four years and is referencing the System amount for the Meter Modernization Program; however, \$12.24 million is the Oregon-allocated portion of the Meter Modernization Program.

In NW Natural's recent general rate case filing, UG 520, Exhibit NW Natural/900, Karney/Pages1-7, the meter modernization project is discussed. Staff views the Company testimony as stating that the deferral would be effective until the Commission orders new rates resulting from the Company's general rate case. In that testimony, the Company projects that \$31.7 million of capital investment will be made prior to October 31, 2025, and an additional \$22.3 million in capital investment will occur during the UG 520 test year.

In its deferral filing the Company states that the deferral is only for O&M incremental costs. Given that construct, Staff views that only direct loadings could be recoverable, consistent with Commission treatment of recent deferral filings.

Docket No. UM 2311(1)
March 5, 2025
Page 5

The Amount Deferred Last Year

The amount deferred last year, January 1, 2024, through December 31, 2024, was \$1,402,794 and interest on the deferral is \$40,091.²

In addition, the interest rate for deferral accounts is 7.056%, and the amortization for the upcoming PGA period estimate of \$2,605,524 as of June 30, 2025, will be amortized starting November 1, 2025.

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. NW Natural will seek a prudency determination of these costs in a future rate case that reviews the prudency of the entirety of the project.
- Sharing Percentages – All prudently incurred cost and benefits will be collected/refunded from/to customers with no sharing mechanism.
- Rate Spread/Rate Design – The deferred amounts will be spread based on an equal percent of revenue applied on a cents per therm basis.
- 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.

Conclusion

Staff concludes that Northwest Natural's authorization request meets the requirements of ORS 757.259 and OAR 860-027-0300 and is consistent with the Company's initial application for deferral.

The Company has reviewed this memo and agrees with its contents.

² See, Exhibit A / Page 1 of 1

Docket No. UM 2311(1)
March 5, 2025
Page 6

PROPOSED COMMISSION MOTION:

Approve Northwest Natural Gas Company's application to defer operations and maintenance costs associated with the Company's Meter Modernization Program, for the 12-month period beginning January 28, 2025.

Northwest Natural UM 2311(1)