ORDER NO. 26-035

ENTERED Feb 03 2026

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 2419

In the Matter of NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL, Application for Authorization to Defer Certain Costs and Revenue Associated with the Coos County Pipeline.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on February 3, 2026, 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. RA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 3, 2026

REGULAR __X__ **CONSENT** ____ **EFFECTIVE DATE** ______N/A______

DATE: January 26, 2026

TO: Public Utility Commission

FROM: Will Wheeler

THROUGH: Caroline Moore, Scott Gibbens, and Curtis Dlouhy **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 2419)
Application for Deferred Accounting Regarding Certain Costs and Revenues Associated with the Coos County Pipeline.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Northwest Natural Gas Company's (NW Natural, NWN, or the Company) request for authorization to defer for later ratemaking treatment operations and maintenance (O&M) costs associated with the Coos County Pipeline as well as revenues from Schedule 160, the Coos County Charge, during the 12 month deferral period of January 1, 2026 through December 31, 2026.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's application to defer costs and revenues associated with the Coos County Pipeline as part of the Company's plan to acquire ownership of the pipeline from Coos County.

Applicable Law

ORS 757.259 authorizes the Commission to allow a utility to defer, for later recovery in rates, expenses or revenues in order to minimize frequency of rate changes or to match appropriately the costs borne by and benefits received by customers. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include the following:

> 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.[1]

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).

In Order No. 05-1070, Docket No. UM 1147, the Commission determined that interest may accrue on deferred accounts at the authorized rate of return until amortization. Subsequent orders in Docket No. UM 1147 establish the rate during amortization. See Order Nos. 08-263 and 10-279.

In Order No. 02-236, the Commission approved a stipulation specifying that NW Natural will impose a surcharge on Coos County natural gas sales customers ("Coos County Charge") in the amount of $0.02 per therm to pay O&M expenses for transportation service on the Coos County pipeline and to repay statewide customers for Coos County users' share of the initial investment to provide natural gas service to Coos County customers.[2] The Commission's order specified the Coos County Charge would be in effect for 20 years and if at the end of that period, Coos County had not yet repaid its share of the initial investment, within 90 days after the end of the 20 years NW Natural will calculate the balance of the Coos County Share remaining to be repaid and will recalculate the Coos County Charge to repay the balance with a reasonable time.[3] The current status of this charge is being investigated pursuant to Order 25-541 in docket UG 528.

<u>Analysis</u>

Pipeline Background
NW Natural filed its application to defer costs and revenues associated with the Coos County Pipeline on December 19, 2025. This application is intended to facilitate the

---

1 ORS 757.259(2)(e).
2 *In the Matter of Northwest Natural Gas Company, Application for a General Rate Revision Advice No. 02-19*, Order No. 03-236 at 3 (April 22, 2003).
33 *Id.,* at Appendix A, p. 6.

Company's plan to acquire the pipeline from Coos County, the current owner, in order to perform landslide remediation and mitigation work that Coos County cannot fund.

The Pipeline entered into service in January of 2005, but its history dates back to 1999. In that year, the Oregon Legislature allocated $24 million in state funding for Coos County, and Coos County voters authorized a $27 million general obligation bond to construct the 60-mile Pipeline from the Williams connection point near Roseburg to NW Natural distribution system serving Coos County customers.

On July 31, 2001, NW Natural and Coos County entered into a Transportation Services Agreement (TSA) under which NW Natural would construct distribution facilities to connect customers to natural gas when the Pipeline was completed. Per the terms of the TSA, NW Natural provides gas service to its Coos County customers by transporting gas through the Williams Pipeline, purchasing gas transportation services from Coos County on the Pipeline, and then delivering gas on its distribution system to customers. The TSA also included an agreement regarding the allocation of industrial class customers, leaving an avenue for Coos County to serve customers directly notwithstanding they were located on territory allocated to NW Natural. NW Natural sought Commission approval of the TSA under ORS 758.410, which authorizes the Commission to approve contracts between public utilities and third parties in which the public utility cedes some or all of the territory in which it has exclusive right to serve. The Commission denied NW Natural's request, finding it did not have authority to approve a contract that merely set forth a procedure the parties could use to allocate territory rather than actually allocating territory. [4]

Subsequent to the Commission's denial, the Oregon legislature enacted Senate Bill 321, which gave the Commission authority to approve an agreement like the TSA between NW Natural and Coos County.[5] NW Natural re-submitted the TSA to the Commission for approval in 2003 and the Commission approved it under ORS 758.405 (the territorial allocation statute), specifically noting that the "terms and conditions" of the TSA were "approved to the extent allowed by statute."[6] In response to NW Natural's request the Commission retain jurisdiction over the TSA to actively supervise its

4 *In the Matter of Northwest Natural Gas Company Request for Approval of Agreement to Allocate Customers and Territory (UA 93) Petition for Declaratory Ruling Regarding Statewide Rate Allocation of Costs (DR 30)*, Order No. 02-678 at 7-8 (October 4, 2002).

5 ORS 758.410 provides, in pertinent part: (3) The commission may approve a contract entered into under this section that authorizes Coos County to construct a natural gas pipeline into allocated territory in Coos County that contains terms for the allocation of industrial customers in Coos County between the county and the other part to the contract."

6 *Request for Approval of Agreement (UA 93), supra,* Order No. 02-678 at 5.

territorial allocation provision, the Commission specified “[w]e will retain jurisdiction to the extent allowed by the territory allocation statutes and SB 321.” [7]

NW Natural has recently reported that the Pipeline has safety issues due to landslide risks that urgently need to be addressed. In 2021, the Company commissioned a study from a geoengineering firm to identify landslide areas near the Pipeline. The study identified nine landslide areas classified as moderate/low risk such that federal code requires monitoring practices to sufficiently address the safety risk. An additional three areas have been identified as having a higher risk of a major landslide. The Company is currently monitoring the landslide risk areas, and has noted that one of the three higher risk areas, the Lookingglass area, was originally identified as moderate/low risk. This reclassification is a result of severe storms that can heighten the risk in certain areas or expose new areas to landslide risk.

In March 2025, heavy rains in Southwest Oregon caused widespread regional damage due to flooding, landslides, mudslides, sinkholes, and rockfalls resulting in a Level 3 regional emergency response activation from the Oregon Department of Emergency Management. The Company has cited this event as a main reason for the urgency of the need to take action to mitigate landslide risk around the pipeline. The Company points to multiple points along the Pipeline that have been impacted by the storm that increase the risk of failure. In particular, the Lookingglass area was upgraded to high risk for landslides in March of 2025, where previously it had been identified as low risk.

Proposed Purchase of the Pipeline

In order to conduct the remediation and mitigation work indicated by the geoengineering study, NW Natural has a plan to purchase the Pipeline from Coos County for $1 and assume responsibility for its safety and maintenance. In UG 527, the Company has requested implementation of an Alternative Rate mechanism to allow recovery of $12.2 million of capital costs for landslide prevention work that it claims is urgently needed in order to assure Pipeline integrity and maintain the Company’s ability to continue providing safe and reliable natural gas services to Coos County residents. Historically, NW Natural has recovered costs for the ongoing O&M work it does on the pipeline through the TSA, which will no longer be in effect when the Company owns the pipeline. The Company claims that without the deferral currently under consideration, “there would be no opportunity for the Company to recover its O&M costs after it owns the Coos County Pipeline.” Staff highlights that the Company requests that this deferral

---

[7] *In the Matter of Northwest Natural Gas Company Request for Approval of Agreement to Allocate Customers and Territory (UA 93) Petition for Declaratory Ruling Regarding Statewide Rate Allocation of Costs (DR 30)*, Order No. 02-678 at 7-8 (02-678).

cover both existing, ongoing pipeline O&M as well as incremental remediation and mitigation work.[8]

Request for deferral
The Company has requested deferred accounting treatment for O&M costs and revenues associated with the Coos County Pipeline. NW Natural states that this deferral is necessary to allow it to recover such costs after acquiring ownership of the pipeline and that, as a result, this deferral will minimize the frequency of rate changes. Additionally, this deferral will match appropriately the costs borne by, and benefits received by customers by using revenues from the existing Coos County Charge to offset the deferred O&M costs.

The Company proposes to record the deferral in FERC Account 186 (Miscellaneous Deferred Debits).

NW Natural currently estimates the amounts subject to deferral to be approximately $1.3 million in costs offset by $115,000 in revenue from Schedule 160.

In addition, NWN has noted unique risks associated with the request from Coos County to assume ownership and begin making safety upgrades:

> NW Natural is not seeking pre-approval of any costs to operate and maintain the pipeline or the investments it will need to make upon transfer of ownership. Rather, NW Natural is seeking to ensure that it will not be held to a heightened cost recovery standard simply because it decided to acquire the Coos County Pipeline and pursue a more conventional regulatory framework for the operation of the pipeline.[9]

Local Support for NW Natural's Proposal
The Coos County Board of Commissioners on September 29, 2025 filed a letter in ADV 1789 in support of NW Natural's proposal to take ownership of the Pipeline.

The letter states:

> The Pipeline, owned by Coos County, is essential to the provision of safe, reliable energy to our County. It is also critical to the economic health of our region. Without it, Coos County would lose natural gas service to both the industries and residents that depend on it…Forest products is the largest industry that requires natural gas service. That industry has re-

[8] Initial Filing, page 5.
[9] Initial application, page 3-4.

> invested over $100 million in Coos County in just the last two years. Technology improvements in wood processing are also dependent on reliable natural gas. In addition, health care, education, and small local businesses including restaurants, shops, and recreation centers, as well as approximately 1900 residential customers, depend on safe and reliable natural gas service for space heating, water heating, and cooking.

Coos County represents that it is unable to pay or secure enough funding to pay for the cost of landslide mitigation. The County was able to secure a FEMA infrastructure grant of $1.45 million with support from Oregon Senators Jeff Merkley and Ron Wyden. The Senators in expressing their support for the grant stated that "if this pipeline were to fail, as is expected in its current state, it could have an enormous impact on the local economy with businesses and hundreds of households reliant on gas from the Pipeline."

The Coos County letter and NW Natural's ADV 1789 filing note that the median household income of $60,313 is substantially lower than both the national median of $78,538, and the state median of $80,426. The low median household income, along with the fact that Coos County is located in a rural area along the Oregon coast with limited energy infrastructure, qualifies Coos County as an "environmental justice community" as defined in ORS 756.010(5).

Stakeholder Comments
Staff opened a comment period for stakeholders and the public to provide comments on NW Natural's application. Various municipalities, businesses, and organizations in Coos County provided comments in support of the Company's application and its plan to acquire ownership of the pipeline. The Green Energy Institute (GEI) at Lewis & Clark Law School and the Sierra Club provided comments urging the Commission to carefully consider whether this situation provides an opportunity to pursue strategic electrification, with the Sierra Club urging the Commission to deny NW Natural's request. The Citizen's Utility Board (CUB) submitted comments in opposition to the Company's deferral application and urges that, if the Commission authorizes the deferral, the Commission make it "crystal clear" that authorizing the tracking of expenses in this deferral is not assuring cost recovery.[10]

Comments in favor of NW Natural's application were submitted by Southport Lumber, Bay Area Hospital, former Oregon State Representative Caddy McKeown, Coos Bay Public Schools, the City of North Bend, the City of Coos Bay, the Bay Area Chamber of Commerce, Southwest Oregon Regional Airport, Organic West Creamery, the South Coast Development Council, and CCD Business Development Corporation. These stakeholders generally highlight first and foremost the need for safe and reliable service,

---

[10] CUB comments, page 6.

and their understanding that the safety and reliability of their service is at risk due to landslide activity. Commenters point out that businesses, non-profit organizations, and residences have taken on costs to transition to natural gas service as a result of long-standing decisions to invest in the pipeline and now rely on that continued service. The commenters discuss Coos County's financial inability to pay for the scale of landslide mitigation work necessary and argue that NW Natural, as a regulated gas utility, is best positioned to meet these long-term infrastructure obligations. The commenters point to higher energy costs for alternative energy sources and stress that continued natural gas service provides predictability for businesses, economic development opportunities for their communities, and energy choice for residences.

In its comments, GEI points to the many efforts of Oregon climate policy occurring simultaneously and argues that, in this context, "[t]he timing for considering an alternative future for the communities served by the publicly owned Coos County pipeline is either terrible or ideal."[11] GEI urges the Commission to consider the Company's plan for the future in the context of the Oregon Energy Strategy & Executive Order 25-29, the potential for declining customers as electrification occurs, and the availability of non-pipeline alternatives. GEI argues that "[i]f the Commission considers this an inappropriate time or context, pursuant to EO 25-29, to eliminate GHG emissions from a natural gas pipeline delivering natural gas to 2,000 customers, it should explain why."[12] GEI points to furnaces and boilers being replaced with electric versions over time, further driving up costs for customers that remain on the gas system, and questions whether large industrial users will remain on the system in the face of gas price volatility and Climate Protection Program costs. GEI argues "opportunities to bring resilience, cooling, and lower costs warrant consideration of electrification in order to future-proof the community."[13] GEI briefly discusses the feasibility of electrification in the dairy and lumber industries and highlights the importance of considering non-pipeline alternatives to NW Natural's proposal. The Sierra Club, in its comments, echoes the concern that the extent of repairs and costs necessary do not match with the potentially dwindling number of customers served, and points to this as an opportunity for zonal electrification. The Sierra Club urges the Commission to deny NW Natural request in favor of non-pipeline alternatives and states that "Coos County rate-payers and residents deserve solutions and investments that make the region more economic, climate, and energy resilient."[14]

CUB filed comments in opposition to NW Natural's deferral application. CUB argues that the Company's application does not satisfy the statutory requirements of

---

[11] GEI comments, page 1.
[12] *Id.* at 2.
[13] *Id.* at 3.
[14] Sierra Club Comments, page 2.

ORS 757.259(2)(e) nor the Commission's discretionary criteria outlined in Order 04-108. In arguing that the statutory requirement is not met, CUB points to back-to-back general rate cases immediately followed by the UG 527 Alternative Recovery Mechanism, and argues that this deferral does not realistically minimize the frequency of rate cases as the Company claims. CUB further argues that even if that statutory requirement was met, the discretionary requirement that the financial risk be material is not met, noting that the $1.3 million in O&M costs the Company expects makes up less than 1 percent of NW Natural's annual revenue.[15] Beyond this, CUB also expresses that it is "deeply concerned that this deferral application is being relied on as a proxy for the Commission's back-door approval of NWN's purchase of the Coos Bay Pipeline."[16] Given the relatively minor amount of costs involved in the request, CUB argues that "the Commission's blessing of the pipeline purchase is the Company's main goal with its deferral application[,]"[17] which CUB claims is impermissible. CUB argues that "[i]f the Commission allows the deferral of these O&M costs, it must make *crystal clear* the deferral is not assuring cost recovery of any Coos County Pipeline related costs."[18] Finally, CUB proposes an alternative course of action for the Commission: deny the deferral application and allow normal regulatory lag between the time costs are incurred and new rates are set, justifying its position by pointing to Order 24-447 in which the Commission discussed balancing regulatory lag between customers and utilities.

Need for Deferral
As the Company and CUB acknowledge, the Commission does not give pre-approval for decisions and costs used to serve the Company's customers, and the prudence determination for those costs is made at the time that those costs are requested to be recovered in rates. For the O&M costs currently at issue, prudence determination will occur when the Company seeks to amortize the deferred balance. For other costs associated with NW Natural's acquisition of the pipeline, such as capital costs for landslide remediation work, prudence determination and cost allocation decisions will be made when those investments are in service.[19]

Staff appreciates CUB's analysis of the statutory and discretionary criteria for deferral, including the conclusion that the Company is not seeking to defer an amount large enough to have a material impact on earnings and will not minimize the need for rate increases. Staff disagrees with CUB that NWN's request for deferral does not meet the

15 CUB Comments, page 5.
16 *Id.* at 3.
17 *Id.* at 6.
18 *Id.* at 6-7.
19 NW Natural has an active cost recovery docket where issues related to prudence and cost allocation may be raised. *See* Docket No. UG 527.

statutory criteria. ORS 757.259(2)(e) authorizes deferrals when they will allow the utility to match costs and benefits. Staff believes this criterion is met.

Staff does not disagree with CUB that NWN's request for deferral fails to satisfy the Commission's discretionary criteria for a stochastic or scenario risk. However, this request presents unique circumstances that support use of a deferral notwithstanding the relatively minor financial impact to the utility. The typical analysis about foreseeability and inclusion of a cost related to stochastic risks in rates does not apply because NW Natural has not recovered O&M costs for the pipeline in rates up to this point because NW Natural does not own it. It is unfair to deny NW Natural's application to defer the cost of the repairs on the ground NW Natural should have foreseen this cost and accounted for it in its current rates, because this is something NW Natural could not have done.

Staff also acknowledges the concerns raised by stakeholders regarding the need to consider electrification. Staff is similarly committed to the search for viable opportunities to test beneficial electrification models but notes that the proposals provided by advocates in this case may not be particularly aligned with the extent of feedback from the local community about the importance of continuing service in the near-term or timelines for core decisions related to an existing pipeline facing potential safety risks. Staff understands the level of uncertainty facing the community at this time. However, Staff also expects the Company to demonstrate that its actions were prudent when all timeline needs and alternatives paths are considered.

Information Related to Future Amortization
Staff is supportive of strong non-pipes alternative (NPA) analysis and consideration of the stranded asset risks of long-term investments in the gas system. Staff shares stakeholders' outstanding questions about the nature of the safety risk, the potential for NPAs and the optimal pace of repairs. When reviewing any expenses incurred under this deferral for prudence and cost allocation, Staff will look closely at:

- The urgency and magnitude of the safety risks, such as expert analysis of the strains on the pipeline, the scale and evolution of landslide areas, and the exposure of Company employees and the public to safety risks,
- The Company's exploration of alternatives to continued natural gas service, such as reverting customers to the use of delivered propane or electrification of local end uses on a relevant time horizon, and
- Consideration of other costs and benefits associated with Coos County ownership of the pipeline, such as litigation risks or the availability of alternative funding sources for O&M.

Further, Staff notes:

- Earnings review – ORS 757.259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e) unless subject to an automatic adjustment clause. As such, an earnings review will be required for these amounts.

- Sharing – Staff makes no recommendation at this time regarding sharing.

- Rate Spread/Design – The question of allocation for these costs between different customer classes and between Coos County and the rest of NW Natural's customers remains an open issue, to be determined when these costs are amortized.

- 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 (with exceptions) 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

The Company's application meets the requirements of OAR 757.259 and OAR 860-027-0300. While this application does not satisfy the Commission's discretionary criteria for unforeseen events, Staff believes the circumstances presented are sufficiently unique to warrant an exception to the discretionary criteria. Staff believes it is reasonable to approve the deferral.

PROPOSED COMMISSION MOTION:

Approve NW Natural's application to defer costs and revenues associated with the Coos County Pipeline during the 12-month deferral period of January 1, 2026 through December 31, 2026.

RA3 – UM 2419 NWN Coos County Pipeline