

May 10, 2023

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Amanda Maxwell, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop S.E.
Lacey, Washington 98503

Re: U-230161—NW Natural Response to Notice of Opportunity to File Written Comments

Dear Ms. Maxwell:

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), appreciates the opportunity to respond to the Washington Utilities and Transportation Commission's (Commission) April 10, 2023, Notice of Opportunity to File Written Comments (Notice) in docket U-230161.

NW Natural is very supportive of the Commission opening a docket to address the potential impacts of the Climate Commitment Act (CCA) on gas and electric investor-owned utilities' cost of service, including its impact on customers. Since utilities are currently incurring CCA costs and natural gas utilities will soon start consigning the majority of their no-cost allowances for customer benefit, such a docket is especially timely and will address important policy issues that need to be carefully considered in order for the CCA cap-and-invest program to be successful.

Questions Posed in the Notice:

1. *Do you have any thoughts, concerns or suggestions on the proposed work plan?*

NW Natural thanks Staff for drafting a proposed work plan and for the opportunity to comment on it. While the Company is generally supportive of the work plan, it believes that several issues should be fast-tracked for resolution. Specifically, the mechanisms and timing for utilities to recover CCA costs, including allowances, and how consigned allowance auction revenue should benefit customers, especially those customers experiencing low incomes. While NW Natural and other utilities have a deferral in place for CCA costs and revenues, the Company nonetheless believes that these issues should be addressed as soon as practicable in order to prevent the build-up of large deferral balances. Therefore, NW Natural recommends that the workplan prioritize how utilities will recover their costs and distribute consigned revenue in the next workshop scheduled for June 22 and strive towards obtaining Commission guidance on these issues by the end of

July. To that end, NW Natural believes that existing workshops should be lengthened or additional workshops scheduled to explore and resolve these issues.

In addition, NW Natural requests that either the workplan or another document explain how the Commission will provide its guidance (i.e., through a policy statement, rulemaking, or on a case-by-case basis). NW Natural recommends that the Commission use a flexible approach, depending on the issue. For example, the definitions of low-income and small-business customers should be consistent across all utilities, as explained below, but other issues may ultimately require the Commission to make decisions on a case-by-case basis, based on general policy guidance or rules established in this docket, such as the type of decarbonization programs that may be funded, either in whole or in part, through consigned allowance revenue.

2. *What are the most important issues for the Commission to address during this proceeding?*

As will be discussed more below, the three most important issues for the Commission to address are: 1) confidentiality, 2) cost recovery, and 3) how to allocate consigned allowance auction revenue. Both cost recovery and allocating consigned allowance auction revenue contain multiple sub-issues that should be addressed.

Confidentiality

NW Natural is concerned with how it provides its bid strategy, bid price, and similar information in Commission proceedings that evaluate the prudence of the Company's actions. WAC 173-446-317 may be read to prevent the sharing of such information with anyone, even under a protective order. NW Natural respectfully requests that the Commission work with the Department of Ecology to clarify these obligations and ensure that the Commission has an appropriate level of access to necessary information.

Cost Recovery

A. *Annual Cost Recovery Mechanism:* CCA costs should be recovered annually coincident with the purchased gas adjustment (PGA). CCA costs, especially allowances, may vary considerably year-to-year due to factors outside of the control of the Company, and therefore, NW Natural believes that an annual cost-recovery mechanism where its costs are subject to prudence review is appropriate.¹ Similar to the PGA, costs should be recovered on a forward-looking basis and include a true-up deferral to capture any over or under-recovery of costs. Any such mechanism, however, must be paired with a way to allocate consigned allowance auction revenue to mitigate cost impacts to certain groups of customers consistent with the CCA (see below).

¹ See e.g., Wash. Util. & Trans. Comm'n v. Avista, Order 5, UE-150204, UG-150205 at P.170 (Jan. 6, 2016) (The utility "must establish that it adequately studied the question of whether to purchase these resources and made a reasonable decision, using the data and methods that a reasonable management would have used at the time the decisions were made.")

B. *Interest Rate on CCA Deferrals:* The Commission should re-examine the interest rate in utilities' CCA deferrals so that they accurately reflect the cost to finance allowances rather than applying the cost of debt from each utility's last rate case. With multi-year rate plans now required and frequent changes to interest rates within the last year, there is a high likelihood that the cost of debt from the last rate case will not reflect the actual financing cost of allowances. This difference in interest rates will either result in a financial detriment or windfall to the Company depending on market rates that are in large part outside the control of utilities. Neither result is appropriate and can be avoided by requiring utilities to update their cost of debt semi-annually, similar to other recent deferrals approved by the Commission.²

Consigned Allowance Revenue

A. *Definition of Low Income Customers:* WAC 173-446-300 requires consigned allowance revenue to, "at a minimum[,] eliminat[e] any additional cost burden to low-income customers from the implementation of the Climate Commitment Act," but does not define low-income customers. NW Natural recommends that the Commission define low-income customers as those customers known to have "household incomes that do not exceed the higher of eighty percent of area median income or two hundred percent of federal poverty level, adjusted for household size," consistent with the Clean Energy Transformation Act regulations (WAC 194-40-030). Such a definition would ensure consistency across different statutory schemes, promote clarity and help to eliminate the confusion that would likely occur if different definitions of "low-income customers" were used.

B. *Definition of Small Business Customers:* WAC 173-446-300 also provides that small business customers receive the benefit of consigned allowance revenue as long as those customers' locations were connected to the natural gas system on July 25, 2021. Like low-income customers, however, neither the CCA nor its implementing regulations define "small business customers." NW Natural recommends that the definition of small business customers be commercial or industrial customers under Schedule 1 or 3 of the Company's tariff.

C. *Allocating Consigned Allowance Revenue:* The CCA requires that consigned allowance revenue be used for the benefit of residential and small business customers. While it provides some sideboards, such as a limitation on these benefits going to such customers whose locations were connected to the system after July 25, 2021 (except for low-income customers), it does not prescribe exactly how this revenue should be distributed. NW Natural appreciates this flexibility, as different utilities across the state have different customer bases and different decarbonization opportunities. NW Natural expects to develop a diversified compliance portfolio that includes purchased allowances, acquisition of RNG, and demand-side management opportunities. Similarly, for consigned allowance revenues, NW Natural intends to use these for billing assistance to offset the

² See e.g. *In the Matter of the Petition of Northwest Natural Gas Company, d/b/a NW Natural, For An Accounting Order Authorizing Deferred Accounting Treatment for Increase in Regulatory Fee Costs*, Order 1, UG-220423, P.7 (Jan. 26, 2023).

cost of the cap-and-invest program and also take direct action to reduce the emissions associated with customers' use of natural gas, such as acquiring RNG or providing incentives for emerging technologies that greatly reduce natural gas usage. NW Natural recommends a flexible approach that balances costs to customers with the need to affordably acquire long-term emissions reductions.

3. *Do you have any other comments you would like to offer on the implications of the CCA for IOUs and ratepayers?*

NW Natural has no additional comments.

Conclusion:

NW Natural appreciates the opportunity to provide these comments, and the Company looks forward to participating in the upcoming workshops and further comment requests.

Please address questions and correspondence on this matter to the following:

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Sincerely,

NW Natural

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