

Agenda Date: December 21, 2023  
Item Number: A5

**Docket:** **UG-230819**  
Company: Northwest Natural Gas Company, d/b/a NW Natural

Staff: David Panco, Regulatory Analyst – Energy Rates and Services  
Wesley Franks, Regulatory Analyst – Energy Planning

### **Recommendation**

Issue an order approving the tariff sheets filed by NW Natural on October 4, 2023, and as revised on November 16, 2023, and November 28, 2023, in Docket UG-230819, subject to the following conditions:

1. The costs recovered through these tariffs are subject to review and refund in a future rate setting proceeding.
2. NW Natural shall continue to work with its low-income advisory group to identify additional known low-income customers or automatically enroll low-income customers in a bill discount or bill assistance program.
3. The Company shall continue to work with interested parties and with continuing Commission processes to develop a risk-sharing mechanism rather than a cost-sharing mechanism.
4. The approval of these tariffs is not precedential.

### **Summary of Filing**

On October 4, 2023, Northwest Natural Gas Company d/b/a NW Natural filed with the Washington Utilities and Transportation Commission (Commission), in Docket UG-230819, proposed revisions to rates under natural gas Tariff WN U-6. The proposed new tariff adjustment, Schedule 308, Washington Climate Commitment Act Recovery Mechanism, will be effective on January 1, 2024.

In this filing, NW Natural seeks to incorporate into Schedule 308 rates for the Climate Commitment Act (CCA) allowance costs and auction proceeds that the Company deferred for the period January 1, 2023, through September 30, 2023, and forecasted costs and revenues from October 1, 2023, through December 31, 2024.

The net effect of the proposed revisions is a \$17.6 million increase in annual revenues or an increase of about 17.2 percent. A typical residential customer connected to the system as of July 25, 2021, using 55 therms per month would see an increase of \$7.99 per month, or 10.7 percent. Residential customers who have recently connected to the natural gas system after July 25, 2021, using 55 therms, would see an increase of \$27.35 per month, or 36.7 percent. Known Low-Income (KLI) customers would receive a credit that fully offsets the rate increase.

On November 16, 2023, in the present docket, NW Natural filed proposed revisions to Schedule 308, which were not included in the Company's initial filing. This filing clarifies that the credits customers in all rate classes receive via a monthly bill credit are capped at the level of CCA costs they are charged.

On November 28, 2023, NW Natural filed an additional proposed correction to Schedule 308, Sheet 308.2, to add rows for revenue credits for Schedule 42 Industrial and Special Contract customers that had been inadvertently omitted. The Company also noted that they will make a compliance filing to provide updated tariff sheets for Schedules 1-3 and 27-43 to reflect approved Schedule 308 rates after the Commission's determination.

On December 15, 2023, NW Natural filed a replacement for proposed tariff Sheet 308-2 to provide a housekeeping correction to the previously stated issuance date.

## **Background**

### *Climate Commitment Act*

On April 24, 2021, the Washington State Legislature passed the CCA through Engrossed Second Substitute Senate Bill 5126, codified as RCW 70A.65. The CCA established a “cap and invest” program that sets a declining cap on greenhouse gas emissions (GHGs) from covered entities, including natural gas utilities, and is intended to reduce emissions in the state by 95 percent by 2050.<sup>1</sup> Under the CCA, in 2023 natural gas companies receive no-cost allowances equal to 93 percent of baseline emissions, with the allocation decreasing 7 percent per year thereafter.<sup>2</sup> While natural gas companies such as NW Natural are allocated allowances at no-cost, in 2023 they must consign 65 percent of those no-cost allowances to auction, with the amount required to be consigned to auction increasing 5 percent per year thereafter.<sup>3</sup> Therefore, for 2023, natural gas utilities must obtain allowances to cover as much as 72 percent of their covered emissions. Covered entities can purchase allowances through auctions sanctioned by the Department of Ecology or on the secondary market.

### *Petition Re: Deferred Accounting Treatment Related to the Climate Commitment Act*

On February 28, 2023, the Commission entered Order 01 in Docket UG-220926, granting NW Natural's petition for deferred accounting treatment for costs and proceeds associated with the purchase and consignment of emissions allowances. On October 11, 2023, the Company filed a petition first, to amend that order to allow NW Natural to implement an annual true up mechanism in its presently filed proposed Schedule 308. Second, the petition proposes to amend

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<sup>1</sup> RCW 70A.45.020.

<sup>2</sup> WAC 173-446-210(1). Each allowance is equivalent to one metric ton of GHGs.

<sup>3</sup> RCW 70A.65.130(2)(a).

that order to account for and accrue interest on a cash flow basis, as granted to Puget Sound Energy in Docket UG-230471, Order 01.<sup>4</sup>

*Current filing*

On September 15, 2023, NW Natural filed proposed revisions to Tariff WN U-06, establishing Schedule 308 to pass through to customers allowance costs and auction proceeds deferred for the period January 1, 2023, through September 30, 2023, and amounts forecasted for the period from October 1, 2023, through December 31, 2024.

**Discussion**

*Cost of Service Ratemaking*

The primary objective of cost-of-service ratemaking is to align rates with the cost of providing service in a given period. Thus, with respect to the CCA, in any given year, the objective should be to pass through to ratepayers the allowance costs and auction proceeds allocated to that same given.

Commission Staff (Staff) believes NW Natural's request to pass allowance costs and proceeds onto ratepayers at this time is appropriate, as it seeks to align to the extent practicable the charges and credits under Schedule 308 in 2023 and 2024 with the allowance costs and proceeds allocated to 2023 and 2024. The deferral balances the Company was authorized to record accumulated because there was no mechanism for passing amounts through to ratepayers over that period. Should the Commission authorize NW Natural's Schedule 308 to go into effect in Docket UG-230819, a mechanism will enable NW Natural to pass those deferred amounts onto customers and annually true-up customer rates. Staff believes that passing these costs and proceeds onto ratepayers now rather than, for example, waiting until NW Natural's next general rate case, would reduce or eliminate potential intergenerational inequities.

*No Prudence Determination is Necessary at this Time*

The Commission should note that the examination of final and actual calendar year 2023 and year 2024 costs and proceeds does not occur in this filing. The costs and proceeds at issue in this filing represent actual costs and proceeds for the first three quarters of 2023 and *projected* costs and proceeds for the fourth quarter of 2023 through calendar year 2024. Therefore, there is no need to examine the prudence of the amounts NW Natural includes in this filing as this does not include final, actual compliance costs through calendar year 2024. Prudence should be examined

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<sup>4</sup> In Order 01, the Commission granted Puget Sound Energy's Accounting Treatment for the Cost Recovery and Pass Back of Natural Gas Costs and Proceeds associated with the Climate Commitment Act in RCW 70A.65. *In the Matter of the Petition of Puget Sound Energy for an Accounting Order Authorizing the Company's Accounting Treatment for Cost Recovery associated with the Climate Commitment Act*. Docket UG-230471, Order 01 ¶ 17 (Aug. 10, 2023).

when the actual cost of compliance is known, which might not be until the first CCA compliance period (i.e., 2023-2026) has concluded.

*Consideration of Alternative Cost Recovery Approaches is Not Necessary at this Time*

Staff does not believe that this is the filing where the Commission should consider alternative cost recovery approaches, such as through general rate cases. Such proposals are more appropriately considered within an adjudicative proceeding. Staff believes that in the near term, it is essential to maintain a tracking and true-up mechanism that attempts to align rates in given years for the estimated cost of service for those same years. Such a mechanism reduces the potential for significant intergenerational inequity and allows for regular rate adjustments that could be necessary to manage price volatility as the allowance market develops. At this early stage of CCA operation, there is a high degree of uncertainty regarding the price for which utilities will sell no-cost allowances at auction and the price utilities ultimately will need to pay for allowances at auction or on the secondary market. Generally, tracking, and true-up mechanisms are appropriate when the costs the utility will pay are highly uncertain because, for example, they are a function of volatile market prices.

*Low-Income Assistance*

The Company's tariff changes will hold known low-income customers harmless with regard to any rate increases from recovery of CCA costs.

*Proposed Schedule 308 Sheets*

Staff has reviewed workpapers, the additional workpapers submitted, and after subsequent review believes that the tariff sheets as proposed are appropriate.

**Customer and Stakeholder Group Comments**

As of December 13, 2023, Staff has received one public comment opposed to this rate increase. Several groups have stated their intent to file brief written comments, but none have indicated desire to discuss this item.

**Conclusion**

NW Natural's proposed revisions to Tariff WN U-6 provided in Schedule 308 are appropriate and should be allowed to go into effect on January 1, 2024, subject to the above-mentioned conditions.