

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of

NORTHWEST NATURAL GAS
COMPANY DBA NW NATURAL

For an Accounting Order Authorizing
Deferred Accounting Treatment Related to
the Climate Commitment Act.

DOCKET NO. UG-220926

PETITION TO AMEND ORDER 01

1 Pursuant to WAC 480-07-875, Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), respectfully petitions the Washington Utilities and Transportation Commission (Commission) to amend Order 01 in the above-captioned docket. Order 01 authorized deferred accounting treatment for the costs and revenues associated with the Climate Commitment Act (CCA). Based on “[c]hanged conditions since the commission entered the order,” and “[h]arm to the petitioner (NW Natural) resulting from the order that the commission did not consider or anticipate when it entered the order,”¹ the Company respectfully requests that the Commission make two amendments to Order 01.

2 First, NW Natural has recently filed Schedule 308, Washington Climate Commitment Act Recovery Mechanism (Schedule 308). Schedule 308 will permit NW Natural to recover the costs associated with the CCA, as well as ensure revenues that the Company receives from emission allowances that are consigned to auction benefit customers.² Due to this changed condition, amending Order 01 is appropriate so that the Company can implement the annual

¹ See WAC 480-07-875 (“Any such petition must comply with the requirements in WAC 480-07-870 for a petition for rehearing”).

² See WAC 173-446-300(2). The CCA requires NW Natural to consign emission allowances it receives from the Department of Ecology to auction. The revenue that NW Natural receives from these consigned emission allowances must benefit customers.

true-up mechanism in Schedule 308, which will allow NW Natural to defer the difference between the amounts that are charged/passed back to customers under Schedule 308 and actual CCA costs and revenues. This mechanism will prevent over- and under-collection of CCA costs and, accordingly, protect customers. Puget Sound Energy has already received a deferral for these CCA costs and revenues, including carrying costs at the actual cost of debt updated semi-annually.³

3 Second, the Company requests Order 01 to be amended to permit NW Natural to accrue interest on its cash flows. Such a change would better reflect the financing costs of CCA compliance measures, including emissions allowances purchased through quarterly auctions and revenues received through the sale of consigned allowances. Currently, under Order 01, the Company must accrue interest on the regulatory deferral. This treatment requires the Company to accrue interest on its compliance expenses, which are accrued based on actual customer usage in accordance with Generally Accepted Accounting Principles (GAAP). As further explained below, relying on the order in this instance creates a mismatch between the CCA compliance costs it is accruing and the significant amount of cash spent to comply with the CCA, which, depending on the circumstance, can either negatively affect the Company or its customers. The Commission has recently granted Puget Sound Energy's request to accrue interest on its cash flows associated with the CCA.⁴

I. NAME OF PETITIONER

4 NW Natural is in the business of furnishing natural gas service within the State of Washington as a public service company and is subject to the regulatory authority of the

³ *In the Matter of Puget Sound Energy, For an Accounting Order Authorizing 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*, Docket UG-230471, Order 01 (Aug. 10, 2023).

⁴ *Id.*

Commission as to its rates, service, facilities, and practices. Its full name and mailing address for the purposes of this proceeding are:

Northwest Natural Gas Company
c/o Kyle Walker
Senior Manager, Rates/Regulatory Affairs
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5 The name and address of the Company's attorney for purposes of this proceeding are:

Ryan Sigurdson
Regulatory Attorney (WSBA #39733)
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II. SUPPORT FOR PETITION

A. Procedural History

6 On December 14, 2022, NW Natural filed a petition with the Commission requesting an accounting order authorizing deferred accounting treatment for costs and revenues related to the CCA. On February 28, 2023, the Commission issued Order 01 in this docket, which authorized deferral accounting for CCA costs and revenues subject to conditions. Specifically, the Commission found that the Company must: 1) track the incremental costs in FERC account 182.3 and the no-cost allowance proceeds in FERC account 254, and 2) separately track the carrying costs accrued on the unamortized amounts booked to FERC account 182.3 and 254.⁵

B. Changed Conditions Since Order 01

7 As stated above, NW Natural has recently filed Schedule 308. In this filing, NW Natural is seeking to include the following components in the Schedule 308 rates:

⁵ *In the Matter of the Petition of Northwest Natural Gas Company, dba NW Natural, For an Accounting Order Authorizing Deferred Accounting Treatment Related to the Climate Commitment Act, Docket UG-220926, Order 01 at P.14 (Feb. 28, 2023).*

- a) The forecasted costs associated with complying with the CCA,
- b) The forecasted proceeds associated with the sales of allowances allocated at no cost,
- c) Actual interest receivable and/or payable from the prior period; and
- d) A true-up for the prior rate period.

8 The forecasted costs will be shown as a charge to customers, while the forecasted proceeds associated with the sales of no cost allowances will be a credit back to customers on Schedule 308.

9 Due to the changed conditions brought about by the filing of Schedule 308, NW Natural is requesting that the Commission amend Order 01 so that the Company can defer the difference between 1) the Schedule 308 charge and the recorded CCA compliance expense, 2) Schedule 308 credit and the recorded auction proceeds and 3) volume differences between the amounts set in rates and the actual amounts that were charged /passed-back to customers to be trued-up each time rates are set under Schedule 308.⁶

10 The Commission has already approved this deferral for Puget Sound Energy's CCA revenue charges and credits. In that order, the Commission found that it was appropriate for Puget Sound Energy "to defer its accrued allowance expenses to FERC account 182.3, Other Regulatory Assets, and auction proceeds to FERC account 254, Other Regulatory Liabilities."⁷ The Commission also found that Puget Sound Energy's proposed treatment of carrying costs (the actual cost of debt updated semi-annually) was appropriate.⁸ In this petition, NW Natural seeks to defer these same costs and have the same treatment of carrying

⁶ NW Natural would continue to defer the CCA costs and revenues that it incurs prior to the effective date of Schedule 308.

⁷ *In the Matter of Puget Sound Energy, For an Accounting Order Authorizing 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*, Docket UG-230471, Order 01 (Aug. 10, 2023).

⁸ *Id.*

costs (the actual cost of debt updated semi-annually). Order 01 originally provided that the Company “accru[es] interest at the Company’s actual cost of debt, as approved in its last general rate case.”⁹

C. Unanticipated Harm/Effect of Order 01

11 Consistent with Puget Sound Energy’s recent CCA deferral order, NW Natural also seeks to accrue interest on its cash flows.¹⁰ Order 01 is based on traditional incurred expenses and revenues that are allowed to be deferred for later ratemaking. Under Order 01, the Company would accrue interest on the deferral when its compliance obligation is incurred (i.e. when customers use natural gas). For example, if a utility anticipated that it would cost \$10 million to comply with the CCA for emissions during the current quarter, it would record a deferral for the expense and accrue interest on that amount.¹¹ This approach, however, does not consider the timing of actual cash outflows associated with CCA compliance; specifically that a utility may choose to pursue compliance measures, such as acquiring emissions allowances in quarterly auctions on a cadence different from when the emissions occurred. A utility may pursue this approach for a host of reasons. For instance, emissions associated with a gas utility are generally concentrated in the winter months where heating needs are greater, but a utility may choose to not acquire all the allowances it needs in those months, or it might be unsuccessful in acquiring all the allowances in that quarter’s CCA auction. Instead, a utility may decide that it is better to evenly acquire emissions allowances throughout the year. Conversely, it may choose to acquire emissions allowances in an

⁹ *In the Matter of the Petition of Northwest Natural Gas Company, dba NW Natural, For an Accounting Order Authorizing Deferred Accounting Treatment Related to the Climate Commitment Act, Docket UG-220926, Order 01 at P.12 (Feb. 28, 2023).*

¹⁰ *Id.*

¹¹ These examples are for illustrative purposes only and do not reflect NW Natural’s actual CCA compliance obligation or how many emission allowances it has acquired.

amount greater than its quarterly emissions for a number of reasons, such as favorable prices or lower emissions in the spring or summer. Furthermore, as stated above, auction participants have the option to purchase future year allowances from time to time, allowing the participant to purchase future allowances with current year cap and floor amounts, potentially purchasing the allowances at lower cost. The flexibility to choose when allowances are purchased rather than matching the timing of when the expense is incurred gives the utility the opportunity to reduce its costs and ensure it can meet its CCA compliance requirements. As such, there will likely always be timing difference between a utility's compliance obligation and the cash outflow to purchase emissions allowances.

12 Unfortunately, an unexpected effect of Order 01 is that it does not take this timing difference into account. Depending on the specific circumstances, this unexpected effect can either harm the utility or its customers. It can harm the utility if it acquires emissions allowances before the accrued compliance obligation, which it might do for many reasons as specified above. In the scenario above where a utility anticipated that it would cost \$10 million to comply with the CCA for that quarter, the utility would accrue interest on the \$10 million, even if it actually purchased more allowances (\$15 million, for example) for emissions in later quarters due to favorable pricing or anticipating higher emissions in the next quarter due to colder weather. The difference in timing between the purchase of allowances the utility actually acquired and the anticipated compliance costs, totaling \$5 million in this example, would remain in an inventory account and not accrue interest. Such a result would deprive the utility of the opportunity to recover its financing costs in a later cost recovery proceeding. If, however, the utility only acquired \$7 million worth of allowances, then Order 01 would permit the utility to accrue interest on the expected \$10 million compliance obligation,

resulting in the utility accruing interest on an amount that is in excess of the allowances it actually purchased. Neither result was expected when Order 01 was issued and, depending on the scenario, may harm the utility or its customers.

13 Finally, NW Natural notes that none of its requested changes to Order 01 seek to guarantee cost recovery in any way. The Company understands and accepts that it will bear the burden of proof to recover any deferred costs in a subsequent cost recovery proceeding.

III. RELIEF REQUESTED

14 The Company respectfully requests that the Commission amend Order 01 as described in this Petition.

Dated this 11th day of October 2023.

Respectfully Submitted,

NORTHWEST NATURAL GAS COMPANY

/s/ Kyle Walker

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