

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

NORTHWEST NATURAL GAS  
COMPANY d/b/a NW NATURAL,

Petitioner,

For Approval of Washington Climate  
Commitment Act Recovery Mechanism

DOCKET UG-230819

ORDER 01

APPROVING COST RECOVERY  
MECHANISM SUBJECT TO  
CONDITIONS

**BACKGROUND**

- 1 In 2021, the Washington State Legislature passed Engrossed Second Substitute Senate Bill 5126 into law, codified as Chapter 70A.65 RCW, to reduce greenhouse gas (GHG) emissions. The Climate Commitment Act (CCA), also referred to as “Cap and Invest,” establishes a declining cap on GHG emissions from covered entities and is intended to reduce emissions in the state by 95 percent by 2050.<sup>1</sup> Under the CCA, gas investor-owned utilities (IOUs) receive no-cost allowances equal to 93 percent of baseline emissions, with the allocation decreasing by 7 percent yearly.<sup>2</sup> Gas IOUs must either purchase allowances to cover the remaining emissions or reduce emissions in other ways to meet their CCA targets. Purchasing allowances, or reducing emissions in other ways, are associated with new costs for utilities while consigning allowances to auction generates new revenues.
- 2 On October 4, 2023, Northwest Natural Gas Company d/b/a NW Natural (NW Natural or Company) filed with the Washington Utilities and Transportation Commission (Commission), in Docket UG-230819, proposed revisions to rates under natural gas Tariff WN U-6 and a request for approval of its proposed cost recovery mechanism (Petition). The proposed new tariff adjustment, Schedule 308, Washington Climate Commitment Act Recovery Mechanism, will be effective on January 1, 2024.
- 3 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

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<sup>1</sup> See Climate Commitment Act - Washington State Department of Ecology

<sup>2</sup> WAC 173-446-240(2).

deferred for the period January 1, 2023, through September 30, 2023, and forecasted costs and revenues from October 1, 2023, through December 31, 2024.

4 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.<sup>3</sup> Known Low-Income (KLI) customers would receive a credit that fully offsets the rate increase.

5 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.

6 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.

7 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.

8 The same day, NW Energy Coalition (NWEC) filed written comments. NWEC's arguments are discussed in greater detail below.

9 On December 20, 2023, Alliance of Western Energy Consumers (AWEC) filed written comments. AWEC's positions are discussed in greater detail below.

10 Commission Staff (Staff) has reviewed the Company's filing and recommends that the Commission grant the Petition subject to conditions.

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<sup>3</sup> Most residential customers connected after July 25, 2021, have usage far below this typical usage.

- 11 Staff observes that the Commission granted NW Natural's petition for deferred accounting treatment of costs under the CCA subject to conditions.<sup>4</sup> Among other directions, the Commission required that NW Natural: 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 using the approved cost of debt from its last general rate case.<sup>5</sup>
- 12 Staff submits that 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 and significant rate increases as the deferred amounts continue to accrue without this mechanism.
- 13 Staff further explains that a prudence determination is not necessary in this Order. 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 when the actual cost of compliance is known, which might not be until the first CCA compliance period (i.e., 2023-2026) has concluded.
- 14 Staff therefore recommends that the Commission 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, subject to the following conditions:

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<sup>4</sup> *In the Matter of the Petition of Northwest Natural Gas Company d/b/a NW Natural*, Docket UG-220926 Order 01 (February 28, 2023).

<sup>5</sup> *Id.* ¶ 14.

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.

15 At its regularly scheduled open meeting on December 21, 2023, the Commission heard additional comments in this proceeding from the Company, Staff, NWEC, AWEC, and EarthJustice. EarthJustice, for example, recommended approving the filing subject to the condition that the Company develops a proposal for a meaningful risk sharing mechanism. AWEC noted, however, that it opposed any risk sharing mechanism for CCA costs and that requiring continued development of such a mechanism suggests that it would be approved.

### DISCUSSION

16 We agree with Staff that NW Natural's Petition should be granted subject to conditions. In this Order, we merely approve the Company's proposed cost recovery mechanism. It is reasonable and consistent with the public interest to allow recovery of these costs now, rather than reserving that determination to the Company's next general rate case.

17 The Commission observes that any prudence determination will occur in a subsequent proceeding, after the Company submits evidence of its actual costs of compliance. Much as we observed when approving the Company's request for deferred accounting treatment of these same costs, "the burden of proof falls upon NW Natural to demonstrate that each of these various types of costs listed are direct incremental costs that were prudently incurred, and that revenues collected from the consignment of allowances were used in accordance with all CCA requirements."<sup>6</sup>

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<sup>6</sup> *In the Matter of the Petition of Northwest Natural Gas Company d/b/a NW Natural*, Docket UG-220926 Order 01 ¶ 15 (February 28, 2023).

18 We also find Staff’s proposed conditions, as noted in paragraph 14 of this Order, reasonable and consistent with the public interest, with this change: in Condition 3, “develop” should be stricken and replaced with “discuss”. These proposed conditions are consistent with our past instructions to the Company to evaluate ways to prioritize low-income customers.<sup>7</sup>

### FINDINGS AND CONCLUSIONS

- 19 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric companies.
- 20 (2) NW Natural is a natural gas company and a public service company subject to Commission jurisdiction.
- 21 (3) Staff has reviewed the petition and proposed tariff revisions filed in Docket UE-230819, including related work papers.
- 22 (5) This matter came before the Commission at its regular open meeting on December 21, 2023.
- 23 (6) After reviewing NW Natural’s Petition filed in Docket UE-230819 on October 4, 2023, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that it is in the public interest to approve the Petition and the Company’s proposed cost recovery mechanism subject to the conditions noted in paragraph 14 of this Order, with the edit noted in paragraph 18 of this Order.

### ORDER

#### THE COMMISSION ORDERS:

- 24 (1) The Commission grants Northwest Natural Gas Company d/b/a NW Natural’s Petition for approval of its Washington Climate Commitment Act Recovery Mechanism subject to the conditions noted in paragraph 14 of this Order, except that Condition 3 should read: “The Company shall continue to work with

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<sup>7</sup> *Id.* ¶ 16.

interested parties and with continuing Commission processes to discuss a risk-sharing mechanism rather than a cost-sharing mechanism.”

- 25 (2) This Order shall not affect the Commission’s authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.
- 26 (3) The Commission retains jurisdiction over the subject matter and Northwest Natural Gas Company d/b/a NW Natural to effectuate the provisions of this Order.

DATED at Lacey, Washington, and effective December 22, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVE W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner