

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

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

For an Accounting Order Approving
Deferral of Costs Associated with the
Meter Modernization Program.

DOCKET NO. UG-_____

PETITION OF NW NATURAL FOR AN
ACCOUNTING ORDER

I. INTRODUCTION

1 Pursuant to WAC 480-07-370(3)(b), Northwest Natural Gas Company (“NW Natural” or
“Company”) hereby petitions the Washington Utilities and Transportation Commission (the
“Commission”) for an order authorizing the deferred accounting treatment of operations and
maintenance (“O&M”) costs associated with the Company’s Meter Modernization Program
 (“MMP”). NW Natural expects to incur significant costs in connection with the MMP and seeks
to defer these costs from the date of this Petition forward while tracking and preserving them for
later ratemaking treatment.

II. COMPANY BACKGROUND AND COMMUNICATIONS

2 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
Commission as to its rates, service, facilities, and practices. The Company’s principal place of
business is 250 SW Taylor Street, Portland, Oregon 97204-3038.

3 Communications regarding this Petition should be addressed to:

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4 The name and address of the Company's attorneys for purposes of this proceeding are:

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III. SUPPORT FOR PETITION

A. Legal Authority

5 The Commission is vested by statute with the authority to regulate, among other things, the rates and accounts of public service companies, including gas companies.¹ WAC 480-07-370(3) allows public service companies to file petitions, including petitions for deferred accounting.² The Commission grants petitions for deferred accounting where “good cause” is shown.³

B. Factual Background

6 NW Natural operates a metering system containing a mix of residential, commercial, and industrial meters. The meters are located on the premises of the customer, and system-wide are a mix of diaphragm, rotary, and turbine meters, which are all mechanical meters.⁴ Having fully functional metering equipment is a utility best practice and key to ensuring accurate billing. NW Natural’s metering equipment is an essential component of the Company’s system, and thus must work properly.

7 NW Natural has an immediate need to replace portions of its aging metering system, and is embarking on a multi-year process to replace metering infrastructure nearing end of life—including both Periodic Cause for Change (“PCC”) meters, which are meter families that have

¹ RCW 80.01.040, RCW 80.04.160, RCW 80.28.020; *see also In the Matter of the Petition of Nw. Nat. Gas Co. for an Accounting Order Authorizing Deferred Accounting Treatment of Certain Costs Associated with Environmental Remediation*, Docket UG-110199, Order 01 (June 30, 2011).

² *See* Docket UG-110199, Order 01 ¶ 6.

³ Docket UG-110199, Order 01 ¶ 10; *see also In the Matter of the Petition of Avista Corp. d/b/a Avista Utils. for an Accounting Order Authorizing Deferred Accounting Treatment for Residential and Farm Energy Exchange Benefit Amounts*, Docket UE-071091, Order 01 ¶ 11 (Aug. 29, 2007).

⁴ Although there are other technology options, in the form of ultrasonic meters, there are currently only four ultrasonic meters in service, which are used in commercial applications.

been tested and are determined to run fast, and end-of-life Encoder Receiver Transmitter (“ERT”) devices. In particular, the MMP is a four-year program from 2023 to 2027 that has been designed to maximize cost-efficiency and mitigate long delays in procurement arising from supply chain issues by first depleting NW Natural’s existing stock of mechanical meters with ERTs attached, fulfilling existing purchase orders, and then strategically implementing a new metering technology—ultrasonic meters—in select areas that will benefit most from the new technology. Additionally, the current meter reading software system—Field Collection System (“FCS”)—requires updating. The four primary components of the MMP are as follows:

- ERT Replacement: Due to ERTs in the Company’s service territory reaching the end of their 20-year battery life, a replacement program is needed for approximately 500,000 ERTs over the coming four-year period (2023 through 2027). NW Natural will continue utilizing current technology (500G ERTs).
- PCC Meter Replacement: As part of the PCC meter replacement program, NW Natural will exhaust the current mechanical meter inventory (including purchase order commitments) and selectively place ultrasonic meters with shutoff capability where they have the potential to improve safety. NW Natural needs to change out approximately 100,000 PCC identified meters over the coming four-year period (2023 through 2027).
- FCS Replacement with Temetra: The current meter reading software in use, FCS, is being retired by the vendor, Itron, meaning that it will not be supported beyond 2026-2027. As part of the MMP, NW Natural will upgrade to the new technology to ensure meter reading continuity and appropriately utilize the ultrasonic meter technology.

- Installation of Ultrasonic Meters. NW Natural will gradually begin adding ultrasonic meters to its meter complement. The plan to use a combination of ultrasonic meters and mechanical meters will allow the Company to make use of its existing inventory and committed contracts while taking steps towards diversifying its metering system.

8 Transitioning the Company’s aging metering system to ultrasonic meters will provide the following key benefits: (1) increasing meter diversification and preparing for an eventual transition away from mechanical meters; (2) mitigating supply chain issues where lead times for ultrasonic meters are 30 weeks compared to 85 weeks for mechanical meters, (3) taking advantage of safety-related benefits unique to ultrasonic meters, such as automatic high temperature and high flow shut off, additional tamper alarms, open pipe alerts, and smaller/lighter meter size reducing field worker injuries; and (4) reduction of ERT purchasing needs due to ultrasonic meters not requiring separate ERT components.

9 Ultrasonic meters also provide operational benefits as compared to their mechanical meter counterparts. Ultrasonic meters are more precise and are less likely to drift and require re-calibration; contain self-diagnostic equipment; and are also approximately 70 percent smaller than the mechanical meters, which allows more flexibility in storage and shipping as well as increased ability to optimize multi-family installs with smaller meters sets.

10 For the above reasons, implementation of the MMP will provide important and extensive improvements to NW Natural’s metering fleet, advancing the Company’s analytical capability, operational efficiency, and safety and risk management capabilities. NW Natural expects to incur significant costs in connection with the MMP. If this Petition is approved, the Company will document all costs known to be incurred as a result of the MMP and will seek later ratemaking treatment for such costs.

C. Reasons for Deferral

11 Deferred accounting treatment is appropriate because it will both minimize the frequency

of rate changes and match appropriately the costs borne by, and benefits received by, ratepayers. Without deferred accounting treatment, NW Natural would face the possibility of incurring approximately \$14.2 million in prudent and necessary expenses with no possibility of cost recovery. Moreover, deferring the O&M costs for the MMP for recovery after the project is complete will also align the project's costs and benefits, consistent with the matching principle.

12 Here, NW Natural is appropriately *not proposing* to include the MMP in base rates. Importantly, the O&M costs for the MMP do not represent ongoing, annual expenses that will be recovered year after year in a continuous manner. Rather, the Company seeks deferred account treatment for the significant one-time O&M expenses associated with developing and implementing the MMP over the discrete, four-year term of the project. Moreover, the O&M expenses associated with implementing the MMP—approximately \$14.2 million over the term of the project—are significant, meaning that the inability to recover these costs would seriously undermine the Company's ability to earn near its authorized rate of return ("ROR"). Absent a regulatory deferral, NW Natural would be required to internalize the entirety of these costs. Such an outcome would unjustly penalize NW Natural for pursuing crucial modernization of its metering fleet to provide safe and reliable customer service. Therefore, deferral is appropriate and a lack of opportunity to recover these unusual and extraordinary costs would seriously undermine the Company's ability to earn near its authorized ROR.

D. Estimated Amounts Subject to Deferral

13 The MMP will involve a significant amount of limited duration O&M expense incurred over the four-year term of the project. Because the O&M expense will only be incurred during the term of the MMP, and will include an initial ramp up at the beginning of the project and a ramp down at the end of the project, the Company does not propose building this O&M expense into base rates at this time. As a result, NW Natural seeks to defer approximately \$14.2 million in incremental O&M costs. The preliminary estimate for Washington-allocated costs that cannot be capitalized and are included within the O&M deferral include the following categories:

- Meter and ERT replacement: \$0.8 million. Southern Cross' installation labor costs for approximately 30 field-techs and supporting positions working across NW Natural's service territory to replace PCC meters and end-of-life ERTs.
- ERT and PCC Hardware Recycling: \$0.4 million. Shipping and recycling approximately 400,000 lithium-ion batteries in ERTs and shipping, testing, and recycling of approximately 90,000 PCC meters and ERTs. Due to the materials in meters and ERTs, we cannot "dispose" of these items without environmental impact and must do so in accordance with applicable regulations.
- Incremental Non-field Labor: \$0.7 million. Includes incremental resource costs (non-field) to support the MMP. These positions will provide support in customer call support with increased customer touch points, scheduling support, billing support, internal change communication, external communications, quality assurance inspection of installations, meter shop support, and support in deploying field techs for change outs. Each of these roles carries an incremental burden for the project due to the elevated number of ERT and meter change outs required during the coming four-year period. The resources identified will be backfilled during the duration of the project to allow for continued operations of business-as-usual work with additional contractor support from Ernst and Young.
- Other external expenses: \$0.1 million. Includes bill inserts and door hangers related to the socialization of MMP to our customer base. Due to the increased presence of field workers during the four-year deployment, we will need to inform customers of the reasoning for trucks and field technicians being in their neighborhoods.

14 The above figures reflect NW Natural’s best understanding of the anticipated O&M costs to implement the MMP. To be clear, NW Natural is not seeking a prudence determination of these costs in this Petition. Rather, if deferred accounting is approved, NW Natural will seek a prudence determination of these costs in a future rate case that reviews the prudence of the entirety of the project.

E. Proposed Accounting Treatment

15 Beginning on January 4, 2024, NW Natural proposes to account for the expenses incurred as a result of the MMP’s O&M implementation costs on the Company’s balance sheet, to be later included in customer rates. In the absence of deferred accounting, NW Natural would record O&M costs associated with the implementation of the MMP in the Federal Energy Regulatory Commission (“FERC”) 878 expense account (Meter and House Regulator Expenses), FERC 382 expense account (Meter Installation), or FERC 384 expense account (House Regulator Installations) as appropriate. NW Natural proposes to track and defer these costs for review in a subsequent rate proceeding. These amounts would not be subject to capitalization under the FERC accounting guidelines and relevant orders.

IV. RELIEF REQUESTED

16 NW Natural requests authorization to defer the O&M costs of the MMP as described herein.

17 WHEREFORE, the Company respectfully requests that the Commission enter an order approving deferred accounting treatment for O&M costs associated with the MMP as described in this Petition.

Dated this 4th day of January 2024.

Respectfully Submitted,

MCDOWELL RACKNER GIBSON PC



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