

November 15, 2024

NWN WUTC Advice No. 24-16

VIA ELECTRONIC FILING

Jeff Killip, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, Washington 98503

Re: Schedule 308 – Washington Climate Commitment Act (“CCA”) Cost Recovery Mechanism

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), herewith files the following revisions to its Tariff WN U-6, stated to become effective January 1, 2025.

First Revision of Sheet 308.1	Schedule 308	Washington Climate Commitment Act Recovery Mechanism
First Revision of Sheet 308.2	Schedule 308	Washington Climate Commitment Act Recovery Mechanism

Purpose

The purpose of this filing is to request that the Washington Utilities & Transportation Commission (Commission) approve updates to Schedule 308, Washington Climate Commitment Act Recovery Mechanism. Schedule 308 permits NW Natural to recover the costs associated with purchasing allowances and decarbonization efforts to comply with the Climate Commitment Act (CCA). As explained below, the CCA also requires NW Natural to consign to auction a certain percentage of allowances that it receives at no cost, resulting in the Company receiving revenue from these consigned allowances. Schedule 308 ensures that the revenues benefit customers as directed by the CCA, including holding low-income customers harmless from CCA costs. NW Natural respectfully requests that the proposed Schedule 308 updates have an effective date of January 1, 2025.

Background

The CCA, passed by the Washington State Legislature in 2021, directs the Washington Department of Ecology (“Ecology”) to develop and implement rules for a cap-and-invest program designed to meet emissions reduction targets and reduce emissions by 95% of 1990 levels by 2050. On September 29, 2022, Ecology issued its final rules to implement the CCA, with the program beginning on January 1, 2023.

As a natural gas utility, NW Natural must comply with the CCA. Under the CCA, natural gas utilities must reduce emissions or acquire allowances for the greenhouse gas (GHG) emissions associated with the use of natural gas. Although natural gas utilities will receive a certain number of allowances at no cost based on their average emissions from 2015-2019, such allowances will

decline over time. Beginning in 2023, natural gas utilities will be allocated allowances at no cost to cover 93% of their 2015-2019 baseline, declining 7% per year through 2030. From 2031-2042, these allowances decrease by 1.8% per year and, from 2043-2049, they decrease by 2.6% per year. After 2049, natural gas utilities will not be allocated any allowances at no cost.

In addition to receiving a declining amount of allowances at no cost, natural gas utilities must consign an increasing percentage of these allowances to auction, which means that they cannot be used for CCA compliance. NW Natural must consign 65% of the allowances it receives at no cost in 2023 and that percentage increases 5% each year until 2030 when NW Natural must consign 100% of allowances allocated at no cost.

Since NW Natural will receive a declining amount of allowances at no cost and is required to consign a large (and increasing) percentage of those allowances to auction, it must further reduce emissions or purchase additional allowances to comply with the CCA. Schedule 308 is designed to recover those CCA compliance costs.

In addition to cost recovery, Schedule 308 also has a component related to the revenue that NW Natural will receive from consigning allowances to auction. The CCA requires such revenue to be used for the benefit of customers as determined by the Commission, including at minimum, eliminating any additional cost burden to low-income customers due to the implementation of the CCA.¹ Revenues from allowances must be returned by providing non-volumetric credits on ratepayer utility bills, prioritizing low-income customers, or used to minimize cost impacts on low-income, residential, and small business customers through actions that include, but are not limited to, weatherization, decarbonization, conservation and efficiency services, and bill assistance.²

Proposed Recovery Mechanism

NW Natural's proposed Schedule 308 update is designed to recover the prudently incurred costs associated with CCA compliance. It will also use revenue that NW Natural receives from allowances consigned to auction to hold all identified low-income customers harmless from CCA costs.³ Any remaining funds will benefit all customers whose premises were connected to the natural gas system prior to July 25, 2021 consistent with CCA requirements.⁴

Rate Effective Date and Cadence of Rate Changes

NW Natural proposes to include the deferral account that captured the difference between forecasted cost and actual cost from 2024 and estimated costs for 2025 and the first four months of 2026. The deferral is a regulatory liability that will reduce costs to be recovered in this update. Due to January having significant heating load on customers, we propose to forecast costs through April 30, 2026 to avoid rate changes during the winter heating season. Consigned allowance revenue forecasted in 2025 and the first four months of 2026 will hold low-income customers harmless from CCA costs. All remaining consigned allowance revenue will be given back as non-volumetric rate credits to customers whose premises were connected to the natural gas system as of July 25, 2021. In subsequent years, NW Natural may propose using those funds for weatherization, decarbonization, conservation and efficiency services consistent with CCA requirements and Commission guidance. Any such proposals would be

¹ WAC 173-446-300.

² *Id.*

³ *Id.*

⁴ *Id.*

made as part of an update filing that will occur on May 1 for annual cost and consigned revenue estimates.

By March 15th, annual filings will be made to update the next calendar year's annual cost estimates as well as the Company's proposal for remaining funds from consigned allowances, after holding low-income customers harmless.

Forecast Estimates

The forecast of costs and consigned allowance revenue is based on the summary of allowance allocations to natural gas utilities for 2023-2026 provided by Ecology, and using allowance prices from a 3rd party futures exchange, Nodal.⁵ The estimated cost per therm for each rate schedule is \$0.24073. For credits, please see the "Non-volumetric Credits" section below.

The forecast of low-income customers is based on the number of customers enrolled in NW Natural's bill discount program and the estimate of customers expected to be added over the next 12 months, which is based on the Company's experience with enrollments and expectations consistent with the Company's 2024 energy burden assessment.

Non-volumetric Credits

All non-low-income customers whose premises were connected to the natural gas system prior to July 25, 2021 will receive a non-volumetric credit.⁶ Customers on Schedule 2 residential, or Schedule 3 commercial, will receive a winter-based credit (November 1 through March 31) and a non-winter credit (April 1 through October 31) to help relieve high usage month bills, as these customers typically use natural gas for winter heating needs. As stated above, all low-income customers will be held harmless from CCA costs consistent with applicable regulations.⁷

For this update of Schedule 308, NW Natural includes an estimate of \$2.6 million to hold low-income customers harmless, which represents an estimated 10,680 customers. Any low-income customers identified during the year will automatically be enrolled to receive offsetting revenues to hold those customers harmless. The table below shows the non-low income customer credits by rate schedule:

Schedule	Non-Winter	
	Winter Credit	Credit
1 - Residential	\$ 1.82	\$ 1.82
1 - Commercial	\$ 5.34	\$ 5.34
2 - Residential	\$ 10.97	\$ 4.84
3 - Industrial	\$ 129.16	\$ 129.16
3 - Commercial	\$ 46.59	\$ 25.89
27 - Commercial	\$ -	\$ -
41 - Commercial	\$ 515.09	\$ 515.09
41 - Industrial	\$ 622.72	\$ 622.72
42 - Commercial	\$ 5,142.27	\$ 5,142.27
42 - Industrial	\$ 3,945.77	\$ 3,945.77

⁵ www.nodalexchange.com, contracts WBI and WBJ for 2025 and 2026 vintage, respectively.

⁶ WAC 173-446-300

⁷ *Id.*

Low-income Customers

NW Natural's bill discount program for income-qualified residential customers began on January 1, 2024. The bill discount program features a low-barrier enrollment for customers that allows for self-attestation of income eligibility. In addition, NW Natural automatically enrolls in the bill discount program those customers that have received energy assistance or participated in our low income energy efficiency program. These energy assistance programs include the federal LIHEAP program and the Company's grant programs, the Gas Residential Energy Assistance Tariff (GREAT) program and the Gas Assistance Program (GAP). NW Natural's low-income energy efficiency program is referred to as the Washington Low-Income Energy Efficiency (WALIEE) program. All of these programs are supported by a robust and extensive community outreach effort that has been informed by community partners and prioritizes the hardest to reach populations. This outreach will focus on ensuring low-income, fixed-income, seniors, those facing food insecurity and hard-to-reach communities are aware of the bill discount program and how to enroll.

Through September 2024, 7,322 customers are enrolled in NW Natural's bill discount program. This represents just over 40 percent of NW Natural's estimated low income customers.

Customers enrolled in NW Natural's bill discount program are automatically qualified to be held harmless from CCA costs and will therefore not incur the Schedule 308 costs of \$0.24073 per therm.

Cost Recovery

NW Natural proposes an update to Schedule 308 to recover the costs and provide credits to customers consistent with CCA requirements explained above. The Company will continue using a balancing account to track the collections and program costs to ensure costs and collections match without under- or over-recovery over time.

The proposed Schedule 308 will decrease the Company's annual Washington revenues by \$1,620,363, or about 1.33%. The average residential Schedule 2 customer using 57 therms would see a decrease of \$5.80 per month, and the average Schedule 3 commercial customer using 254 therms would see a bill decrease of \$31.97 per month. For customers who have recently connected to the natural gas system after July 25, 2021, a residential Schedule 2 customer using 57 therms would see a decrease of \$14.62 per month, and the average Schedule 3 commercial customer using 254 therms would see a bill decrease of \$65.15 per month. The bill impact for customers on other residential rate schedules is shown on page 2 of Exhibit A.

The proposed rate change will affect all of NW Natural's Washington sales and transportation service customers. NW Natural currently serves approximately 90,256 residential customers and 7,326 commercial and 72 industrial customers in the Company's Washington service territory.

Conclusion

NW Natural respectfully requests an effective date of January 1, 2025 for Schedule 308.

NW Natural will provide notice to customers in a manner consistent with WAC 480-90-194(3). This notice will include the impact of both the proposed rate changes in this filing as well as the impact of the proposed update to Schedule 231 that has been separately filed in NW Natural's

WUTC Advice No. 24-15. The combined notice is intended to reduce confusion for customers since both rate changes are requested to become effective January 1, 2025. A copy of this notice is included with this filing.

In accordance with WAC 480-90-193, copies of this letter and the attached filing are available in the Company's main office in Portland, Oregon, and on its website at www.nwnatural.com.

As requested by WAC 480-80-103(4)(a), I certify that I have authority to issue tariff revisions on behalf of NW Natural.

For the purposes of establishing a service list for this docket, and for any questions, please address correspondence on this matter to me with copies to the following:

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Respectfully submitted,

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Attachments:

NEW-NWN-WUTC-Advice-24-16-Trf-Sheet-308-1-11-15-24
NEW-NWN-WUTC-Advice-24-16-Trf-Sheet-308-2-11-15-24
NEW-NWN-WUTC-Advice-24-16-Exh-A-11-15-24
NEW-NWN-WUTC-Advice-24-16-Exh-A-WP-11-15-24