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October 4, 2023

NWN WUTC Advice No. 23-14

VIA ELECTRONIC FILING

Kathy Hunter, Acting Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, Washington 98503

Received
Records Management
Oct 4, 2023

Re: NEW Schedules – 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, 2024.

Original Sheet 308.1	Schedule 308	Washington Climate Commitment Act Recovery Mechanism
Original 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 a new tariff adjustment, Schedule 308, Washington Climate Commitment Act Recovery Mechanism. Schedule 308 will permit 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 will ensure that the revenues benefit customers as directed by the CCA, including holding low-income customers harmless from CCA costs. NW Natural respectfully requests that Schedule 308 have an effective date of January 1, 2024.

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. However, for this first year of Schedule 308, the costs incurred and forecasted are associated with allowances only.

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

NW Natural requests that Schedule 308 go into effect on January 1, 2024 to help mitigate customers' overall bill impact and avoid the impact of growing balances and compounding rate increases if we continued to defer these costs. To the extent that the Company can comprehensively evaluate the expected bill impacts at the time of the Purchased Gas Adjustment (PGA) filings, which is often driven by natural gas market dynamics outside of the Company's control, the Company endeavors to identify potential offsetting rate impacts that can mitigate volatile bill impacts. Pending Commission approval, on November 1, 2023, residential customers will receive a rate decrease of approximately 13.4% associated with a decline in commodity costs through the PGA. This PGA rate decrease will help offset Schedule 308 costs. In addition, allowing NW Natural to recover CCA costs beginning on January 1, 2024 will help avoid compounding potential rate increases in the future and limit the deferral balances associated with the CCA. While the Commission has opened a docket to provide guidance on the CCA (U-230161), in which the Company is actively participating, NW Natural is seeking cost recovery at this time in order to leverage the PGA rate decrease to mitigate CCA bill impacts to customers.

Proposed Recovery Mechanism

NW Natural's proposed Schedule 308 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

¹ WAC 173-446-300.

² *Id.*

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 recover prudently incurred costs in the first three quarters of 2023 and forecasted costs through December 31, 2024. Consigned allowance revenue forecasted in 2023 and 2024 will hold low-income customers harmless from CCA costs. During the first year that Schedule 308 is in effect (calendar year 2024), 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 made as part of an annual filing that will also update the next calendar year's annual cost and consigned revenue estimates.

By September 30th, 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 \$0.49726. For credits, please see the "Non-volumetric Credits" section below.

The forecast of low-income customers is based on the number of customers receiving energy assistance over the past two years and the estimate of customers being added over the next twelve months, which is based on the Company's experience with its Oregon residential bill discount program that began on November 1, 2022.

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 the initial rollout of Schedule 308, NW Natural includes an estimate of \$1.6 million to hold low-income customers harmless, which represents an estimated 4,500 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:

³ *Id.*

⁴ *Id.*

⁵ www.nodalexchange.com, contracts WBG and WBH for 2023 and 2024 vintage, respectively.

⁶ WAC 173-446-300

⁷ *Id.*

Schedule	Winter Credit	Non-Winter Credit
Schedule 1 Residential	\$ 5.10	\$ 5.10
Schedule 1 Commercial	\$ 16.67	\$ 16.67
Schedule 2	\$ 32.62	\$ 9.88
Schedule 3 Commercial	\$ 127.46	\$ 48.67
Schedule 3 Industrial	\$ 396.95	\$ 396.95
Schedule 27	\$ -	\$ -
Schedule 41 Commercial	\$ 1,244.55	\$ 1,244.55
Schedule 41 Industrial	\$ 1,492.26	\$ 1,492.26
Schedule 42 Commercial	\$ 10,512.74	\$ 10,512.74
Schedule 42 Industrial	\$ 13,852.77	\$ 13,852.77
Special Contract	\$ 67,546.85	\$ 67,546.85

Low-income Customers

NW Natural recently filed a residential bill discount program for income-qualified residential customers with a rate effective date of November 1, 2023. The bill discount program features a low-barrier enrollment for customers that allows for self-attestation of income eligibility. In addition, NW Natural will automatically enroll 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.

The enrolled low-income customers in NW Natural’s bill discount program will automatically qualify to be held harmless from CCA costs and will therefore not incur the Schedule 308 costs of \$0.49726 per therm.

Cost Recovery

NW Natural proposes new tariff Adjustment Schedule 308 to recover the costs and provide credits to customers consistent with CCA requirements explained above. The Company proposes to use a balancing account to track the collections and program costs to ensure costs and collections match without under- or over-recovery over time. NW Natural will make a separate filing to enable it to use a balancing account, as well as to use the cash flow basis of

accounting consistent with the CCA accounting treatment that Puget Sound Energy recently received.⁸

The proposed Schedule 308 will increase the Company's annual Washington revenues by \$17,552,522, or about 17.2%. The average residential Schedule 2 customer using 55 therms would see an increase of \$7.99 per month, and the average Schedule 3 commercial customer using 251 therms would see a bill increase of \$43.31 per month. For customers who have recently connected to the natural gas system after July 25, 2021, a residential Schedule 2 customer using 55 therms would see an increase of \$27.35 per month, and the average Schedule 3 commercial customer using 251 therms would see a bill increase of \$124.81 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 89,231 residential customers and 7,190 commercial and industrial customers in the Company's Washington service territory.

Conclusion

NW Natural respectfully requests an effective date of January 1, 2024 for Schedule 308.

This effective date will enable the Company to start recovering the costs of the CCA program while avoiding pancaking costs to customers that would otherwise occur if CCA cost recovery is delayed.

NW Natural will provide notice to customers in a manner consistent with WAC 480-90-194(1).

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:

eFiling
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250 SW Taylor Street
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Respectfully submitted,

⁸ *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, UG-230471, Order 01 (Aug. 10, 2023).*

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Attachments:

NEW-NWN-WUTC-Advice-23-14-Trf-Sheet-308-1-10-04-2023
NEW-NWN-WUTC-Advice-23-14-Trf-Sheet-308-2-10-04-2023
NEW-NWN-WUTC-Advice-23-14-Exh-A-10-04-2023
NEW-NWN-WUTC-Advice-23-14-Exh-A-WP-10-04-2023