ITEM NO. CA5

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 16, 2024

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** ____N/A____

DATE: March 18, 2024

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway and Russell Beitzel **SIGNED**

SUBJECT: NORTHWEST NATURAL:
Docket No. UM 1496(13)
Request for Re-authorization to certain Revenues and Expenses.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Northwest Natural Gas Company's (NW Natural or Company) application for reauthorization to defer Purchased Gas Cost (PGA) differences for the 12-month period beginning November 1, 2023, through October 31, 2024.

DISCUSSION:

Issue

Whether the Commission should reauthorize NW Natural's application to defer, with interest, gas cost differences for later adjustment to the price of gas supplied to ratepayers in accordance with the PGA mechanism.

Applicable Rule or Law

Due to the fluctuation of the wholesale price of natural gas, the PGA mechanism was originally established by the Commission in Order No. 89-1046 to pass on to customers actual gas costs while minimizing the frequency of rate changes and the fluctuation of rate levels in accordance with ORS 757.259(2)(e). Under the PGA mechanism and pursuant to ORS 757.259(4), the Commission may authorize utilities to defer actual purchased gas costs for a 12-month period. The difference between the actual gas costs and the cost charged to ratepayers is amortized and passed through into rates if the utility's earnings are not excessive as defined by OAR 860-022-0070. Since the mechanism's creation in 1989, the Commission has issued a series of orders concerning PGA filings in Docket No. UM 1286, most recently in Order No. 14-238. Commission Order No. 09-263 stated the purpose of an annual adjustment mechanism is to allow a gas company to accrue the differences between forecasted and actual costs for annual demand and commodity related gas costs into rates. Ultimately, a portion of the deferred gas commodity and demand costs may be recovered from, or returned to customers. A gas utility must seek deferral of these costs on an annual basis pursuant to ORS 757.259 and OAR 860-27-0300.

<u>Analysis</u>

Background
The company is seeking reauthorization to use deferred accounting pursuant to ORS 757.259 and OAR 860-027-0300 for the 12- month period beginning November 1, 2023, through October 31, 2024, for all expenses associated with gas commodity costs and demand costs.

The Company also seeks to defer these expenses or revenues so that they can be recovered or returned to customers through the Company's annual Purchased Gas Adjustment (PGA), pursuant to ORS 757.210(1)(b).

Description of Expense
NWN submitted this filing on October 18, 2023. The PGA mechanism allows utilities to regularly adjust the price of gas charged to ratepayers to reflect the costs incurred by the utility to purchase and transport the gas. The monthly differences arise because the rates associated with gas costs are calculated using forecasted gas prices and therms. A request to amortize the accumulated deferral is made annually, to be effective November 1, 2024.

All previously authorized account balances related to PGA commodity and capacity cost deferrals not presently authorized for amortization or being proposed for amortization, are all as described in NW Natural OPUC Advice No. 22-19A.

Reason for Deferral
Due to the volatility of natural gas prices and to minimize the frequency of rate changes, the PGA mechanism was established by the Commission's Order No. 89-1046 to enable utilities to defer the difference between gas costs expected to be collected from customers and gas costs actually collected, as set forth in Schedule P – Purchased Gas Cost Adjustments, which provides for the collection of these costs through deferred accounting treatment and subsequent amortization through the Company's PGA, which is implemented pursuant to ORS 757.210(1)(b).

Proposed Accounting
NW Natural proposes to continue deferring to sub-accounts of FERC Account 191 for subsequent distribution to, or collection from customers, consistent with the PGA methodology. Gas cost differences will be segregated between commodity-related and demand-related cost differences. Absent deferred accounting, charges incurred for gas costs pursuant to the PGA activity and other incurred gas costs would be recorded as increases/decreases in the appropriate FERC Account 80X gas expense subaccounts.

Estimated Deferrals in Authorization Period
The PGA mechanism enables utilities to pass through rates the actual costs of gas used by customers. However, due to the volatility of natural gas prices that are dependent on market and weather conditions, it is impossible to accurately predict the deferral amount resulting from the difference between gas costs incurred by the Company and gas costs included in customer rates.

Information Related to Future Amortization

- Earnings Review – An annual spring earnings review will be conducted pursuant to OAR 860-022-0070.

- Prudence Review – Prior to amortization, a prudence review will be conducted. The review should include verification of the accounting methodology used to determine the final amortization balance.

- Sharing – Per NW Natural's September 11, 2023, filing in Docket No. UM 1286, its sharing election related to the 2023-2024 PGA year is that 90 percent of the difference between actual commodity costs and the commodity costs collected from customers will be deferred with the Company absorbing the remaining 10 percent. The commodity portion of purchased gas cost differences include purchasing natural gas, the variable cost of transporting the gas from the supply basin to the city-gate, the benefits received from storage optimization, off-system sales, and other miscellaneous costs or benefits.

- Rate Spread/Design – Prudently incurred gas cost differences that have been correctly accounted for should be developed into a rate per therm based on estimated usage for the upcoming PGA year.

- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

- This deferral is subject to the exception at ORS 757.259(7) that allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the Commission finds that allowing a higher amortization rate is reasonable under the circumstances.

Conclusion

Based on the review of NW Natural's application, Staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259. Further, the Company's application for reauthorization of deferred accounting meets the requirements related to the establishment of the PGA mechanism, as well as the requirements of ORS 757.259 and OARS 860-027-0300.

The Company has reviewed this memo and agrees with its contents.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's application for reauthorization to defer certain revenues and expenses for the 12-month period beginning November 1, 2023.