

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 28, 2014

REGULAR _____ CONSENT X EFFECTIVE DATE November 1, 2014

DATE: October 7, 2014

TO: Public Utility Commission

FROM: Robert Fonner ^{Mt for} _{RF} *RF*

THROUGH: Jason Eisdorfer and Marc Hellman *At*

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 273/Advice No. 14-13)
Request for Amortization of Certain Non-Gas Cost Deferred Accounts
Related to Distribution Margin Normalization.

STAFF RECOMMENDATION:

Staff recommends that Northwest Natural's (NWN or Company) Docket No. UG 273/Advice No.14-13 and request for amortization of certain non-gas cost deferred accounts relating to Distribution Margin Normalization (DMN) be approved with an effective date of November 1, 2014.

DISCUSSION:

NWN recovers a portion of its fixed costs through volumetric rates. During each rate case, rates are set in a manner that if the Company had the expected number of customers, and on average the customers consume the expected amount of gas, the Company will recover all fixed costs. If customers use less gas than predicted, the Company may not recover all of its fixed costs. NWN addresses this issue through their Distribution Margin Normalization (DMN) mechanism. The DMN mechanism tracks a portion of the under- or over-collection of revenues in a deferred account. The DMN then recovers revenue shortfalls and refunds excess revenues by adjusting the per-term rate the Company charges for gas every 12 months.

This filing amortizes the current balance of the deferred account over the next year. The estimated amount deferred under Docket UM 1027, including interest, and net of a Company error correction, is \$124,004 for residential customers and \$5,966,269 for commercial customers. These amounts are owed by customers to the Company. The

Company proposes a temporary adjustment of residential customer and commercial customer rates to \$0.00035 per therm and \$0.02951 per therm, respectively.

If approved, the temporary adjustment to rates is expected to decrease the typical monthly residential Rate Schedule 2 customer using 53 therms per month bill by approximately 84 cents. The monthly bill of a commercial Rate Schedule 3 customer using 232 therms per month would increase by approximately \$1.00, and the monthly bill of a Rate Schedule 31 commercial customer using 3,514 therms per month would increase by approximately \$15.11. The proposed temporary adjustment will impact the rates of 563,128 residential customers and 57,665 commercial customers. For the Company, the removal of current temporary rate adjustments applied to rates effective November 1, 2013, and the application of the new temporary adjustment to rates is expected to reduce the Company's annual revenues by \$4,908,529, or about 0.73 percent.

In June of 2001, NWN made its original decoupling request docketed as UG 143, the purpose of which was two-fold:

1. To make the Company indifferent to the consumption patterns and energy efficiency activities of its residential and commercial customers through a decoupling mechanism; and
2. To provide funding for public purposes to be administered by the Energy Trust of Oregon.

On September 12, 2002, the Commission issued Order No. 02-634, adopting a Stipulation introduced by NWN, Staff, and the Community Action Directors of Oregon which allowed the Company to defer margins and recover 90 percent of the differentials between the weather-normalized usage and the baseline usage.

On August 25, 2005, the Commission issued Order No. 05-394, which modified the Company's decoupling mechanism by allowing 100 percent recovery of the differentials through September 30, 2009.

On September 26, 2007, the Commission adopted a Stipulation signed by the Parties to UG 152 and UG 163, wherein the decoupling mechanism was extended from September 30, 2009, to October 31, 2012.

On October 26, 2012, the Commission adopted a Stipulation signed by the Parties to UG 221, wherein the decoupling mechanism was extended again. This stipulation

included a number of changes to the mechanism, including the removal of the baseline usage elasticity adjustment.

On December 9, 2013, the Commission adopted Order No. 13-485 reauthorizing NWN to defer refunds or collections of distribution margin for the twelve-month period beginning November 1, 2013, through October 31, 2014.

In October 2013, before the Company filed their 2013-2014 Purchased Gas Adjustment (PGA) request to amortize the balance of the deferred account over the following year, an error was discovered in the calculation of weather normalized usage. The error was initially thought to have resulted in an over-calculation of the deferred costs by \$32,391, resulting in the inappropriate inclusion of that amount in customers' rates.

Because the error was initially thought to be small and with consideration for the tight timeline faced by the Company for the 2013-2014 PGA, Staff agreed to allow NWN to maintain the filed amortization schedule and return the over-deferral, including interest, to customers in the 2014-2015 PGA filing. However, subsequent analysis by the Company revealed that the error actually represented an over-deferral of \$812,292, not \$32,391.

The error made by the Company is related to the Weather Adjustment Rate Mechanism (WARM) component of DMN. The Commission approved WARM in 2003 as a means of reducing weather-related risk for the Company and its customers by weather normalizing the actual gas volumes consumed by customers before the volumes are used to calculate the monthly DMN deferral. Weather-normalization mitigates the risk to the Company and to customers posed by unusually warm and cold conditions, respectively. To weather-normalize the actual volumes consumed by customers, the Company compares actual degree days with normal degree days. Before this comparison is carried out, the actual degree days from the Company's customer information system need to be lagged by one day as the final weather data for a given day is not published until the following day. For example, proper weather normalization should compare actual weather data from February 1 with normal weather data from January 31. In the midst of NWN staff turnover and changes in source data used, the Company improperly compared normal and actual data from the same date in their calculation of weather-normalized gas volumes from January 2013 through April 2013.

The Company is proposing a temporary adjustment for residential and commercial customers of \$0.00035 per therm and \$0.02951 per therm, respectively. This adjustment accounts for the 2013-2014 DMN deferral amounts as well as the erroneous over-deferral from the 2012-2013 DMN period. NWN has submitted workpapers

calculating the deferred amounts and the associated amortization schedule and temporary adjustments. Staff requested additional supporting papers documenting the weather normalization of actual usage and the calculation of the monthly deferral accumulation.

Staff reviewed the calculations used in developing the proposed rates in NWN's Schedule 190.

1. The Company correctly calculated the variance in volumes and applied the approved DMN rate to determine the deferrals.
2. The Company used the Commission's most recently authorized Rate-of-Return to calculate the accrued interest during the deferral period.
3. The Company used the appropriate blended treasury rate during the new tracker year.
4. The residual balance from the prior amortization period is accurate.
5. Actual customer usage was weather normalized correctly in the 2013-2014 decoupling deferral period.
6. The monthly deferral amounts were calculated in accordance with the stipulations in UG 221 and the current tariff. Specifically:
 - a. The decoupling mechanism incorporated certain updates developed in preparing UG 221.
 - b. The elasticity component of the decoupling mechanism was not included.
 - c. The decoupling deferral period used was November - October to coincide with the PGA tracker year.
 - d. Usage for the month of May was normalized in the same manner as November usage.
7. The over-deferral of \$877,791, including interest, correctly reflects the Company's identified weather normalization error. The proposed rates will appropriately amortize the balance over the upcoming twelve month period.

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PROPOSED COMMISSION MOTION:

NWN's tariff sheets in Docket No. UG 273/Advice No.14-13 be allowed to go into effect on November 1, 2014.

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