

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 19, 2015

REGULAR _____ CONSENT X EFFECTIVE DATE November 1, 2015

DATE: October 6, 2015

TO: Public Utility Commission

FROM: Suparna Bhattacharya ^{SB}

THROUGH: Jason Eisdorfer and Marc Hellman ^E ^A

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 295/Advice No. 15-09)
Request for Amortization of Certain Non-Gas Cost Deferred Accounts
Related to Distribution Margin Normalization.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Northwest Natural's (NWN or Company) proposed Schedule 190 tariff, as described in the Advice No. 15-09, effective on and after November 1, 2015.

DISCUSSION:

Issue:

The purpose of this filing is to update Schedule 190 rates amortizing deferrals tracked through Distribution Margin Normalization ("Partial Decoupling") mechanism. The proposed deferral balance to amortize over the next PGA year is \$20,555,284. To amortize this balance, NWN requests a temporary rate adjustment of \$0.02276 per therm for residential Rate Schedule 2 and \$0.06279 per-therm for commercial Rate Schedules 3 and 31.

Applicable Law:

- I. ORS 757.259 authorizes the Commission to amortize deferred utility expenses or revenues into rates to the extent authorized by the Commission in a proceeding to change rates and after a review for prudence. Amortizations under an automatic adjustment clause such as these do not require an earnings review.

- II. ORS 757.259(4) states that the Commission may authorize deferrals under subsection (2) of this section beginning with the date of application, together with interest established by the commission. A deferral may be authorized for a period not to exceed 12 months beginning on or after the date of application.
- III. ORS 757.262 authorizes to set rates to encourage acquisition of cost-effective conservation resources.

Analysis

NWN's Distribution Margin Normalization mechanism tracks and defers the weather adjusted deviation of therm usage, and subsequent revenues, from a baseline established in NWN's latest rate case (UG 221) over a 12-month period. This mechanism allows the Company to recover fixed costs collected from customers volumetrically as customers reduce their usage through energy efficiency measures without consideration of weather, as weather effects are captured in WARM.

Each month, the Company calculates the difference between weather normalized usage and the calculated baseline usage for residential Rate Schedule 2 and commercial Rate Schedules 3 and 31. The resulting usage differential is then multiplied by the respective per-therm distribution margin. Monthly decoupling deferrals for these Rate Schedules are recorded in a deferred account. The deferral balance is then amortized, with interest, and spread over the forecasted therms, every PGA year, to determine the Schedule 190 rates. The deferral is a credit to customers (Schedule 190 rates decreases), if customer usage is above the baseline, and a debit to customers (Schedule 190 rates increases), if customer usage is below the baseline.

Residential: The residential decoupling deferral balance is estimated to be \$8,178,854 on October 31, 2015.¹ The residual balance from prior amortization period, November 2014 through October, 2015 (for deferrals from November 2013 through June 2014), is estimated to be \$49,656. The total estimated amount for collection during the upcoming PGA year will be \$8,314,786.² The proposed Schedule 190 rate adjustment derived when the total estimated balance of \$8,314,786 is spread over 365,285,306 therms³ is \$0.02276. The monthly bill of the average residential customer served under Rate Schedule 2 using 53 therms per month will increase by about \$1.19.

¹ \$7,970,143 (Deferral, Jul 2014-June, 2015) + \$208,711 (Interest, Jul, 2015-Oct, 2015) = \$8,178,854.

² Step 1: \$49,656 (Residual Balance) + \$8,178,854 (Deferral Balance) = \$8,228,510;

Step 2: \$8,228,510 (Estimated Balance) + \$86,276 (1.93 percent interest) = \$8,314,786.

³ Therms reflect the forecasted gas usage of residential customers from Nov, 2015 - Oct, 2016.

Commercial: Similarly for the commercial Rate Schedules, the decoupling deferral balance is estimated to be \$10,988,104 on October 31, 2015.⁴ The residual balance from prior amortization period, November 2014 through October, 2015 (for deferrals from November 2013 through June 2014) is estimated to be \$1,125,384. The total estimated amount that the Company proposes to collect from commercial customers during the following PGA year is \$12,240,498.⁵ The Schedule 190 rate adjustment for Rate Schedule 3 and 31 is \$0.06279, and calculated in a similar fashion as done for the residential Rate Schedule 2.⁶ The monthly increase for the average commercial Rate Schedule 3 customer using 233 therms per month is about \$7.75, and the monthly increase for the average commercial Rate Schedule 31 customer using 3,324 therms is about \$110.63.

The net effect of the removal of current temporary adjustments applied to rates effective November 1, 2014 and the application of the new temporary adjustment is to increase the Company's annual revenues by \$14,465,011, or about 2.13 percent. The number of customers affected by the proposed change is 571,204 residential customers and 57,831 commercial customers.

Conclusion

Given that amortization of the deferred amounts are subject to an automatic adjustment clause, Staff's prudence review focused on whether the deferred amounts subject to amortization and the proposed rates were calculated correctly. After reviewing the Company's current filing and having several discussions with the Company regarding decoupling deferral calculations, Staff finds that the proposed increases in Schedule 190 rates for both residential and commercial customers are reasonable and have been appropriately calculated. There are two primary reasons why the amortization of decoupling deferrals is higher this year than it was last year. First, there are four additional months of deferrals included in this year's balances. This is because under the current PGA guidelines, only deferrals through June 30th are collected in the PGA. Last year represented a transition year, where the new rules were adopted, resulting in only eight months of deferrals being included, whereas this year a full twelve months of deferrals are included. Second, the balance placed into rates last year included a credit, due to over-amortization of the previous years' deferrals that occurred because of colder than normal weather driving up usage that year. For the upcoming PGA year, not only is that credit removed, but the balance to be amortized beginning November 1, 2015 includes an additional amount to be collected (a debit) related to an

⁴ \$10,707,705 (Deferral, Jul 2014–June, 2015) + \$280,399 (Interest, Jul, 2015–Oct, 2015) = \$10,988,104.

⁵ Step 1: \$1,125,384 (Residual Balance) + \$10,988,104 (Deferral Balance) = \$12,113,488;

Step 2: \$12,113,488 (Estimated Balance) + \$127,010 (1.93 percent interest) = \$12,240,498.

⁶ Forecasted usage of commercial customers (Rate Schedules 3 and 31) is 194,955,987 therms

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under-amortization of deferrals that occurred because of warmer than normal weather this last winter, which drove down usage.

Fourth Revision of Sheet 190-1, provided with the filing has been appropriately updated with new temporary Schedule 190 rates for Rate Schedules 2, 3 and 31. Staff reviewed the tariff language and finds no unusual terms and conditions.

The Company has reviewed this memo and has no areas of concerns.

PROPOSED COMMISSION MOTION:

NWN's proposed Schedule 190 rates, as described in the Advice filing 15-09, effective with service on and after November 1, 2015, be approved.

NWN Decoupling