

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 18, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE March 23, 2016

DATE: April 11, 2017

TO: Public Utility Commission

FROM: Mitchell Moore *MPM*

THROUGH: Jason Eisdorfer and Marc Hellman *MPM for MCH*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1766(1)) Requests Re--
Authorization of Deferred Accounting Related to a Change in Annual
Regulatory Fees.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural's (NW Natural or Company) request to defer costs associated with the incremental increase in the annual regulatory fee due to the Commission-ordered increase to 0.30 percent, for the twelve-month period from March 23, 2017, to March 22, 2018.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's request for reauthorization to defer costs associated with the incremental increase in the annual regulatory fee.

Applicable rule and law

NW Natural submitted its deferral application on March 22, 2017, in accordance with ORS 757.259, and OAR 860-027-0300. ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities. Previous approval of this deferral was most recently granted by Order No. 16-154.

Analysis

Background:

OAR 860-021-0034 requires natural gas utilities to pay regulatory fees to the Commission each year by April 1. The fee payable by the natural gas utility is an annual fee rate multiplied by the utility's gross operating revenues derived within Oregon for the previous calendar year. The annual fee rate is set by Commission order entered on or after March 1 of each year.

Senate Bill (SB) 329, enacted in 2015, allows the Commission to set the annual fee to a percentage not to exceed 0.3 percent of utilities' gross operating revenue. Prior to SB 329, the maximum percentage was 0.25 percent.

Subsequently, the Commission initiated a rulemaking proceeding docketed as AR 591 to increase the fee to 0.275 percent of the utilities' gross operating revenue. In that proceeding, PacifiCorp requested that the Commission authorize the use of deferred accounting for the difference between the utility's annual fee at the new rate and the annual fee at the previous rate of .25 percent. In its order in AR 591 enacting a fee of .275 percent, the Commission declined to address PacifiCorp's deferral request, which concerned the implementation of the fee change, but stated that PacifiCorp could request its proposed rate treatment in another proceeding.

In 2016, NWN asked for and was granted authority to defer the difference between the amount collected in rates for the fee (based on a percentage of 0.25 percent) and the newly established rate of 0.275 percent. (Order No. 16-154.)

On February 22, 2017, the Commission issued Order No. 17-065, setting the annual fee rate at 0.30 percent of the gross operating revenues for electric, natural gas, water, and wastewater utilities. This is an increase from the prior annual fee rate of 0.275 percent.

Description:

NWN seeks authority to defer the difference between the amount collected in rates for the regulatory fee and the amount owed for the current fee. The Company's calculation for the amount to defer is the incremental difference between the Company's annual fee using the new rate of 0.30 percent and the annual fee assumed for purposes of NWN's current rates, which is at the previous rate of 0.250 percent.

Proposed Accounting:

NW Natural will record deferred costs related to the increase in Account 186236.

Estimated Deferrals in Authorization Period:

NWN estimates the amount to be deferred for the associated 12-month period to be approximately \$283,825.

Information Related to Future Amortization

- Earnings Review – ORS 757.259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e).
- Prudence Review – For amortization, the prudence review should be limited to verification of the accounting methodology used to determine the final amortization balance.
- Sharing – For the reasons discussed more fully below, Staff recommends that there be no sharing between NW Natural and its customers for this deferral.
- Rate Spread/Design – Account balances will be spread to the appropriate customer classes.
- 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 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.

Conclusion:

Staff concludes that the Company's application to authorize deferral of the incremental increase in the annual regulatory fee is consistent with ORS 757.259. Staff also supports the Company's decision to amortize the deferred amounts through the PGA process by including the amount as an offset to a credit that may otherwise exist in a different deferred account that would be amortized at that time, or as a slight addition to another deferred account that would result in a surcharge.

While an earnings review is required prior to amortization of this deferral pursuant to ORS 757.259(5), the Commission is not required to perform an earnings test that could result in sharing of deferred costs between the Company and its customers. Staff recommends that deferred amounts not be subject to an earnings test for two reasons. First, the PUC fee is collected from customers and directly passed-through to the Commission. Second, the proposal to not subject the deferred amounts to sharing is generally consistent with the treatment allowed by the Commission in Order No. 10-083, wherein the Commission lowered the annual PUC rate and ordered electric and natural gas utilities to defer the difference between the previous rate and the revised rates. In Docket UM 1488, the utilities put forth proposals for amortization of deferred PUC fee credits to customers, which were not subject to sharing from the results of an earnings review.¹

PROPOSED COMMISSION MOTION:

Approve NW Natural's request to defer costs associated with the incremental increase in the annual regulatory fee due to the Commission-ordered increases from 0.250 percent to 0.30 percent, for the twelve-month period from March 23, 2017, to March 22, 2018.

NWN UM 1766 OPUC Fee Increase

¹ See *In re Amortization Proposals Related to PUC Fee Deferral Ordered in UM 1012*, OPUC Docket No. UM 1488, Order Nos. 10-443 (NW Natural), 10-437 (Cascade), 10-436 (Avista), 10-373 (Idaho Power), 10-372 (PGE), and 10-307 (PacifiCorp) (2010).