

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 6, 2020**

REGULAR CONSENT EFFECTIVE DATE March 23, 2020

DATE: September 28, 2020

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 1766(4))
Requests Reauthorization of Deferred Accounting Related to Annual
Regulatory Fees.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural's (NW Natural, NWN, or Company) request to defer costs associated with an incremental difference in the PUC annual regulatory fee, and the costs currently being collected in rates for the twelve-month period beginning March 23, 2020.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's request for reauthorization to defer costs associated with a variance in the annual regulatory fee and the amount collected in rates.

Applicable rule and law

NW Natural submitted its deferral application on March 13, 2020, 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. 19-118.

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 0.30 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 0.25 percent. In its order in AR 591 enacting a fee of 0.275 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 was originally 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). That authority was reauthorized in 2017 and 2018 to defer the variance in the amount collected in rates and the fee assessed by the Commission.

In 2017, the Commission increased the annual fee to 0.3 percent (Order No. 17-065). The Commission most recently set the annual fee at 0.35 percent in its Order No. 20-054.

In NWN's most recent general rate case, UG 388, the 0.35 percent regulatory fee was incorporated into base rates as of November 1, 2020 in the all-party stipulation.¹ Assuming the stipulation is approved, this deferral will cover the incremental amount above 0.3 percent from March 23, 2020 through October 31, 2020.

Description

NWN seeks authority to defer the difference between the amount collected in rates for the regulatory fee and the amount owed for its annual regulatory fee. The Company's

¹ See UG 388 NW Natural-Staff-CUB-AWEC/100; Kravitz, Gardner, Jenks, and Mullins/13.

calculation for the amount to defer is the incremental difference between the Company's annual fee assessed by the Commission and the annual fee contained in NWN's current rates. The previous 0.30 percent fee is currently included in base rates; however, this filing covers the incremental amount of 0.05 percent above that amount contained in base rates.

Proposed Accounting

NW Natural records deferred costs related to the fee increase in Account 186236.

Estimated Deferrals in Authorization Period

In its initial filing, NWN estimated the amount deferred in the period between March 23, 2020 and March 22, 2021 to be \$320,104. Assuming the UG 388 stipulation is approved, the actual amount to be deferred will cover the time period from March 23, 2020 through October 31, 2020, based on actual gross revenues.

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 any incremental increase in the annual regulatory fee as consistent with ORS 757.259. Staff also supports the Company's decision to amortize any potential 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 any 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 No. 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.²

PROPOSED COMMISSION MOTION:

Approve NW Natural's request for reauthorization to defer costs associated with a variance in the annual regulatory fee and the amount collected in rates for the 12-month period beginning March 23, 2020.

NWN UM 1766(4) OPUC Fee Increase

² 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).