

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 29, 2019

REGULAR _____ CONSENT X EFFECTIVE DATE January 5, 2019

DATE: January 23, 2019

TO: Public Utility Commission

FROM:  Deborah Glosser

THROUGH:  John Crider and  Jason Eisdorfer

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1807) Requests
Reauthorization to Defer Expenses and Costs Associated with Third Party
Interstate Storage Cost Allocation Study.

STAFF RECOMMENDATION

Staff recommends that the Commission approve Northwest Natural's (NW Natural or Company) application for deferred accounting of costs for the twelve-month period from January 5, 2019, to January 4, 2020, related to hiring a neutral third party to conduct an evaluation and cost allocation study (Study) of the Company's revenue sharing mechanisms associated with its interstate storage and optimization activities.

DISCUSSION

Issue

Whether the Commission should approve NW Natural's request for deferred accounting for costs related to hiring a neutral third party to conduct a Study of the Company's revenue sharing mechanisms associated with its interstate storage and optimization activities.

Applicable Law:

NW Natural submitted its deferral application on December 26, 2018 pursuant to 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.

Analysis

Background

In Docket No. UM 1654, the Investigation into NW Natural's Interstate Storage and Optimization Sharing, the Commission reviewed NW Natural's revenue sharing arrangement relating to NW Natural's interstate storage and optimization activities. In that docket, the Commission issued Order No. 15-066, which directed that a cost allocation study and evaluation be performed by a neutral third party (Study). In the Order, the Commission authorized NW Natural to receive cost recovery for the Study. The Commission most recently approved deferral accounting for these costs on January 24, 2018, in Order No. 17-024.

Following the issuance of the Order, NW Natural, Commission Staff, the Citizens' Utility Board of Oregon (CUB),¹ and the Northwest Industrial Gas Users (NWIGU)² formed a Steering Committee, as directed by the Commission. The Steering Committee selected and then hired Liberty Consulting Group as the third-party evaluator. The report was completed and filed with the Commission on February 28, 2018.

Reason for Deferral

NW Natural states that the Study was conducted by Commission in order to "more robustly examine the risks, costs, and benefits of NW Natural's optimization activities... associated with interstate storage services," and that NW Natural is filing this application to ensure it is complying with the steps required to allow the Commission's authorized rate recovery to be implemented.

Proposed Accounting

NW Natural proposes to account for the costs associated with the consultant by recording the deferral in Account 186420 beginning on January 5, 2019. In the absence of approval of deferred accounting, NW Natural would record the amounts in an operations and maintenance account affecting the Company's income statement.

Estimated Deferrals

In the past 12-month accounting period, \$34,040.88 of expense was deferred. NW Natural does not anticipate additional expenses associated with the Study in the upcoming accounting period; therefore, NW Natural expects to amortize the balance of the deferral account with its next purchased gas adjustment filing. The Company is filing this application to comply with order 15-066 so that it may recover the costs associated

¹ Since that time, CUB's name was changed to Oregon Citizens' Utility Board.

² Since that time, NWIGU has become Alliance of Western Energy Consumers (AWEC).

with the Study. The interest rate for deferral accounts is 7.317 percent, and monies that have been transferred for amortization accrue at an interest rate of 2.92 percent.

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, a prudence review should be completed to verify prudence of the costs.
- Sharing - The Commission Order No. 15-066 did not mandate any sharing. Therefore, Staff does not recommend any sharing of the cost being considered for deferral.
- Rate Spread/Design - Account balances will be spread to the appropriate customer classes on the same basis as was done in past Commission orders for these types of costs.
- 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. Subsection (7) permits the Commission to allow an overall average rate impact greater than three percent for a natural gas utility if the commission finds that allowing a higher amortization rate is reasonable under the circumstances.

Conclusion

Staff concludes that the Company's application to authorize deferral of the costs associated with hiring a third-party evaluation and cost allocation study of the Company's revenue sharing mechanisms associated with its interstate storage and optimization activities is consistent with ORS 757.259, and should be approved by the Commission.

PROPOSED COMMISSION MOTION:

Approve NW Natural's application for deferred accounting of costs for the twelve month period from January 5, 2019, to January 4, 2020, related to hiring a neutral third party to

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conduct an evaluation and cost allocation study of the Company's revenue sharing mechanisms associated with its interstate storage and optimization activities.

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