

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 27, 2018

REGULAR _____ CONSENT X EFFECTIVE DATE February 28, 2018

DATE: February 12, 2018

TO: Public Utility Commission

FROM: John Fox *JF*

THROUGH: Jason Eisdorfer and John Crider *JCE*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1913) Application for an Accounting Order – Rate Schedule 90 Firm Storage Service with No-Notice Withdrawal (PGE North Mist Service).

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Northwest Natural Gas Company's (NW Natural, NWN, or Company) request for an accounting order authorizing capitalization and establishment of a deferred liability account for overhead costs associated with the Portland General Electric (PGE) North Mist Service pursuant to Company Advice No. 14-7, with an effective date of February 28, 2018.

DISCUSSION:

Issue

Whether the Commission should authorize the Company to record as Capital Expenditures for the North Mist Service for Portland General Electric Company ("PGE") an amount allocated as overhead costs, and to record an equal and offsetting amount to a deferred liability account, which will be used to generate a credit amount to all Oregon customers.

Applicable Rule or Law

As provided in ORS 757.120(1), every public utility is required to keep uniform accounts of all business transacted in the manner and form prescribed by the Commission. Importantly, "No public utility shall keep any other accounts or records of its public utility business transacted than those prescribed or approved by the commission except such

as may be required by the laws of the United States.” ORS 757.125(2). OAR 860-027-055 adopts the uniform system of accounts prescribed for Natural Gas Companies in Part 201, Chapter 1, 18 Code of Federal Regulations. Therefore, a public utility must receive an accounting order from the Commission if it seeks to depart from the accounting method prescribed by the Commission.

Analysis

Background

The Company's Rate Schedule 90, Firm Storage Service with No-Notice Withdrawal, was approved by the Commission in October of 2014 pursuant to Company Advice No. 14-7. In summary, Schedule 90 gives NWN the ability to deliver a unique storage service to customers that have agreed to pay all costs associated with the service (including the necessary capital additions); in providing the service, NWN would recover its costs of service, including its authorized cost of capital.¹ Staff explained that: “In the instance of PGE as the initial customer for Schedule 90 service, PGE will be an industrial customer, located within NWN's service territory, purchasing gas storage and transportation services to power its Port Westward 2 plant.”² The 2014 staff report recommending approval of the Schedule³ also notes that the only known customer for Schedule 90 at that time was PGE and included, among others, the following condition of approval:

The costs of any utility personnel that work on the planning and construction of the non-Core Mist Storage for the provision of RS 90 service will be charged to the RS 90 customers as provided in the customer's agreement. (With respect to PGE, NWN and PGE have agreed to implement this commitment through allocating such costs to PGE as capital. NWN agrees that there will be a credit provided to core customers to offset the costs that would otherwise be in rates, but which are allocated to PGE. NWN will seek to pass that credit through to customers as a one-time credit when the project goes into service, subject to gaining any necessary approvals of the Commission required to affect the credit).

¹ Advice No. 14-7, Staff Report for October 14, 2014 Regular Public Meeting at 1-2, available at <http://edocs.puc.state.or.us/efdocs/HAU/hau103623.pdf>.

² Advice No. 14-7, Staff Report for October 14, 2014 Regular Public Meeting at 3, available at <http://edocs.puc.state.or.us/efdocs/HAU/hau103623.pdf>.

³ Advice No. 14-7, Staff Report for October 14, 2014 Regular Public Meeting, available at <http://edocs.puc.state.or.us/efdocs/HAU/hau103623.pdf>.

NWN's Request

NW Natural requests Commission approval of an accounting order pursuant to ORS 757.120 and 757.125, which are the statutes governing utility accounts. The Company uses the system of accounts adopted by the Commission in OAR 860-027-0055.

The requested departure from the Commission's accounting methodology is stated in the Company's UM 1913 application:

NW Natural and PGE agreed that one percent of all direct project costs would represent an appropriate allocation of construction overheads. Absent special treatment, the effect of the allocation would be to lower the amount of overheads applied to other utility projects during the same construction timeframe, and the lower cost of related assets would benefit ratepayers over the course of the assets' useful lives through lower depreciation and financing costs. As an alternative, instead of the longer-term benefit of decreased asset costs, current ratepayers could recognize the entire benefit immediately if a credit to them was made, representing the return to them of utility overhead that was allocated to the North Mist project.

In essence, NW Natural ratepayers will be trading increased depreciation charges in future years for an immediate rate benefit.⁴ The deferred liability account that will be created as a result of Commission approval of this accounting order request represents the future revenue associated with the ratepayers' commitment to pay increased depreciation charges.⁵

The Company expects the North Mist expansion to be completed in October 2018. New rates under the pending general rate case (UG 344) are scheduled to go into effect on November 1, 2018. Staff notes that the amounts underlying the proposed credit are still part of construction work in progress at this time and the final amount of the credit is indeterminate until the project is placed into service. However, it is important that Staff and the Company work together well in advance of North Mist going into service to

⁴ Staff agrees with the company that the proposed increase in capitalized construction overhead will also increase the total value of utility plant resulting in a return on capital higher than would otherwise occur without the accounting order.

⁵ Although the current filing requests recording of transactions in a deferred liability account, the filing does not include the elements of an application for deferred accounting required by ORS 757.259 and OAR 860-027-0300 (3)(b), (3)(c), (3)(d), and (3)(e). Therefore, in this report, Staff is only recommending approval of an accounting order, noting that an accounting order in and of itself has no rate impact.

determine the appropriate method for retuning the credit to customers contemporaneously.

Conclusion

The requested accounting order is reasonable and necessary to achieve the customer outcomes and fulfill the specific condition underlying Rate Schedule 90⁶ and should be approved. Commission approval of the accounting treatment does not constitute approval of any ratemaking.

A future meeting of Staff, the Company, and possibly parties to the Schedule 90 agreement will be necessary to determine the exact amount of the one-time credit to NW Natural customers and the method for delivering such credit.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural Gas Company's request for an accounting order, to record as Capital Expenditures for the North Mist Service for Portland General Electric Company ("PGE") an amount allocated as overhead costs, and to record an equal and offsetting amount to a deferred liability account, which will be used to generate a credit amount to all Oregon customers, with an effective date of February 28, 2018.

UM 1913 NW NATURAL COSTS FOR NORTH MIST SERVICE

⁶ See Advice No. 14-7, Staff Report for October 14, 2014 Regular Public Meeting, available at <http://edocs.puc.state.or.us/efdocs/HAU/hau103623.pdf>.