ITEM NO. CA6

**PUBLIC UTILITY COMMISSION OF OREGON**
**STAFF REPORT**
**PUBLIC MEETING DATE: May 27, 2014**

**REGULAR** ____ **CONSENT** _X_ **EFFECTIVE DATE** ____ **June 1, 2014** ____

**DATE:** May 20, 2014

**TO:** Public Utility Commission

**FROM:** George Compton GRC

**THROUGH:** Jason Eisdorfer, Maury Galbraith, and Marc Hellman

**SUBJECT:** NORTHWEST NATURAL: (Advice No. 14-6) Revises Schedules 185 and 186 to refund to firm sales customers shares of the margins earned from storage services and from storage and transportation optimization services.

## STAFF RECOMMENDATION:

Staff recommends that Northwest Natural Gas Company's (NW Natural or Company) Advice No. 14-6 be approved and the associated replacement tariff sheets for Schedules 185 and 186 be allowed to go into effect on June 1, 2014.

## DISCUSSION:

On March 28, 2014, NW Natural submitted for Staff's review *RG 32: 2013 Annual Report of Interstate and Intrastate Gas Storage and Optimization Activities [pertaining to] Rate Schedules 185 and 186.* The purpose of this advice filing is to update the rates found in those two schedules so as to achieve the crediting, entirely during the June billing cycle, of the amounts called forth in that Annual Report. The respective amounts to be credited to customers are $2,998,847 and $8,380,631. Those figures comprise the Annual Report amounts plus a residual balance from the previous year's credits, with adjustments for revenue sensitive effects.[1]

The credits that each customer receives are calculated by multiplying the Schedule 185 and 186 tariff amounts applicable to his customer class times the total therms for which

[1] The figures in the previous sentence were obtained from the worksheets accompanying the application memo. The slightly smaller amounts in the memo do not include the adjustments for revenue sensitive effects. Clarification: When base revenues decline due to a rates decrease, ancillary revenues-based costs, e.g., franchise fees, also decline. To prevent the latter decrease from causing an increase in the Company's return on investment, the target refund must be adjusted upward commensurately.

*that customer* was billed during the entire period of January 1, 2013, through December 31, 2013.[2] The combined Schedule 185 and 186 average June credits range from $11.98 for residential customers to $5,779 for Schedule 32 Industrial Interruptible Sales customers.

Schedule 185 credits to its core Oregon customer schedules[3] their designated shares of pre-tax incomes earned from interstate and intrastate Mist storage services per se,[4] and from Mist Storage Optimization services. The core customer share of those pre-tax incomes is 20 percent, except for Mist Storage Optimization service to intrastate customers, where the share is 67 percent. Under Schedule 186, core customers receive that same 67 percent share of the pre-tax incomes earned from non-Mist Storage Optimization and from portfolio and transportation optimization services performed for core customers.

Those percentage shares, along with the approaches to rate design and cost allocations, have been in practice for some time. The Schedule 186 credit is in the form of a uniform dollars-per-therm rate applies to all of the core customer schedules. It is $0.01289 per therm for all volumes for all customer classes.

Schedule 185 is very much different. Instead of being based on a uniform rate, gross refund shares are allocated to the core customer schedules in proportion to their shares of the Company's overall margin.[5] While the margin reflects both customer charge revenues and volumetric-based revenues, owing to the fact that the base costs supporting the services which yielded the Schedule 185 and 186 credits are ultimately recovered through the core schedules' volumetric rates, it is appropriate that the credits in turn work through discounts applied to the volumetric rates portion of the margin's revenue base. Accordingly, Schedule 185 rates for each core customer schedule are a (negative) uniform percentage of that schedule's volumetric margin rate(s). Given each schedule's projected volumes of sales, the credit rates are calculated so as to produce the gross credit share allocated to that schedule.

Since the underlying Schedule 185 allocations are based upon margin contributions, core schedules possessing the highest volumetric margin rates will experience the largest credit rates. Hence, as examples, the Schedule 185 credit rate for residential Schedule 2 is $0.00613 whereas the credit rate for Block 6 of industrial Schedule 32 ISF is only $0.00015 per therm.

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[2] Schedule 185 applies different credit rates to the different volumetric sales blocks contained in customer Schedules 31 and 32.
[3] These are residential Schedule 2 and commercial and industrial Schedules 3, 31, and 32.
[4] Respective Mist storage tariffs: FERC 284.224 and NW Natural Schedule 80.
[5] "Margin" in this context is defined as total revenues less purchase-gas costs. Margin revenues are the sum of customer charges and the volumetric billing rates less temporary rate increments and the average rate paid to the wholesale gas suppliers.

**PROPOSED COMMISSION MOTION:**

NW Natural's Advice No. 14-6 be approved and the associated replacement tariff sheets for Schedules 185 and 186 be allowed to go into effect on June 1, 2014.

NW Natural's Advice No. 14-6