



PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: October 19, 2015

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE November 1, 2015

DATE: September 22, 2015

TO: Public Utility Commission

FROM: Judy Johnson 

THROUGH: Jason Eisdorfer and Marc Hellman 

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 297/Advice No. 15-11)  
Establishes Environmental Cost Recovery Schedule 182, and revises Site  
Remediation Recovery Mechanism (SRRM) Schedule 183.

**STAFF RECOMMENDATION:**

I recommend that the Commission approve Northwest Natural's (NW Natural or Company) filing for rates reflective of Environmental Cost Recovery and the SRRM and make the rates effective November 1, 2015.

**ISSUE:**

In this memorandum, Staff addresses whether the Commission should authorize the Company to commence recovery of deferred environmental remediation costs and implement a tariff to collect revenues to offset future environmental remediation costs when the Company's PGA is effective (on November 1, 2015), even though the Staff and intervenors do not agree that every element of the Company's compliance filing is consistent with Order No. 15-049.

**PERTINENT AUTHORITY:**

The standard of review for a compliance filing is whether the advice filing is consistent with the resolutions and determination made by the Commission in its final order.<sup>1</sup>

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<sup>1</sup> See e.g., Order No. 10-198.

## **DISCUSSION:**

### Background

The Commission issued Order No. 15-049 on February 20, 2015. NW Natural made its first compliance filing on March 31, 2015. Staff and intervenors objected to some elements of the filing, and after several discussions with Staff and parties, the Company submitted a filing on July 31, 2015 that would implement parts of the Compliance Filing in the upcoming PGA. The Company then submitted a revised compliance filing on September 21, 2015. For purposes of the tariff filing, the proposed tariffs were part of the July 31, 2015 filing and were not updated in the September 21, 2015 filing.

As the Company notes, the Company, Staff, and intervenors (together, "the Parties") are not in complete agreement on each element of NW Natural's compliance filing. NW Natural's latest compliance filing, which reflects many discussions among the parties, will most likely be litigated to resolve the remaining disputes regarding implementation of Order No. 15-049. In the meantime, the Company proposes its filed tariffs be made effective to avoid further delay in amortizing the Company's deferred balance of environmental remediation costs and the Company's recovery of ongoing costs.

### NW Natural's Advice Filing

The first purpose of this filing is to implement a tariff (Schedule 182) adjusting permanent rates in accordance with the Commission's directive in Order No. 15-049 to collect \$5 million in base rates per year using sales estimates and allocation factors from Docket UG 221, its last general rate case.

The second purpose is to: (a) revise certain language contained in Schedule 183 to be consistent with the Order No. 15-049; and (b) amortize one-fifth of NW Natural's calculation of the balance in the Schedule 183 Site Remediation Recovery Mechanism (SRRM). The Schedule 183 SRRM mechanism was first approved by the Commission in Docket UG 221. Both Schedule 182 and revisions to Schedule 183 are discussed in more detail below. NW Natural posits that the Commission could approve the filing and incorporate any Commission decisions on the compliance filing in the next PGA.

### Schedule 182: Rate Adjustment for Environmental Cost Recovery

The purpose of Schedule 182 "Rate Adjustment for Environmental Cost Recovery" is to reflect the per-therm effect of the collection of \$5 million per year on a prospective basis, grossed up for revenue sensitive items, on an equal percent of margin basis using sales estimates and allocation factors from Docket No. UG 221 as directed by the Commission in Order No. 15-049.

The effect of this portion of the Advice Filing is to increase the Company revenues by \$5,140,437 (including revenue sensitive effects) or 0.76 percent. The average residential customer using 53 therms will see an increase in an average monthly bill of 52 cents, or 0.8 percent, the average commercial customer using 233 therms will see an increase of \$1.60, or 0.7 percent, and the average Rate Schedule 32 firm sales industrial customer using 21,272 therms will see a monthly increase of about \$43.29, or 0.3 percent.

Schedule 183: Site Remediation Recovery Mechanism (SRRM)

First, the Company proposes to revise Schedule 183 "Site Remediation Recovery Mechanism (SRRM)," to address changes ordered by the Commission in Order No. 15-049. These changes include:

- Adding reference to the Commission Order under "Purpose"
- Clarifying the earnings test language at Sheet 183-2
- Adding language to address the timing of the annual prudence review and the change to a calendar year approach

Second, the Company proposes to reflect the per therm effect of the amortization of one-fifth of the SRRM Account balance, as calculated by NW Natural, on customer rates. For purposes of this filing, the Company has applied the amount of \$8.4 million to the SRRM Account. This balance represents one fifth of the amount of deferred environmental remediation expense through 2013, which has been deemed prudent, less the disallowances ordered by the Commission in UM 1635, less the application of insurance receipts as ordered by the Commission, plus associated interest accumulated on the deferred expense and insurance through November 1, 2015. Additionally, the Company proposes to include in the balance of the SRRM amounts that represent the \$5 million per year tariff rider for the January 1, 2013, through October 31, 2015, period, which the Commission characterized as "future costs." See Order 15-049 at page 6.

The effect of this portion of the filing is to increase the Company revenues by \$8,588,387 (including revenue sensitive effects) or 1.27 percent. The monthly bill of the average residential customer served under Rate Schedule 2 using 53 therms per month will increase by 84 cents, or 1.4 percent. The monthly increase for the average commercial Rate Schedule 3 customer using 233 therms is about \$2.58, or 1.1 percent, and the monthly increase for the average commercial Rate Schedule 31 customer using 3,324 therms is about \$26.77, or 1.0 percent. The average Rate Schedule 32 firm sales industrial customer using 21,272 therms will see a monthly increase of about \$70.06, or 0.6 percent.

Combined Effects of Schedule 182 and Schedule 183

If the effects of the proposed Schedule 183 adjustments are permanent, the combined effect of Schedule 182 and Schedule 183 is to increase the Company revenues by \$13,728,824 or 2.0 percent.

The number of customers affected by the proposed changes described above is 571,204 residential customers, 59,817 commercial customers, and 805 industrial customers.

Staff Analysis

After a review of this filing and workpapers, Staff recommends the Commission adopt the proposed rates knowing that the balance amortized under Schedule 183 will likely change once all disputes regarding implementation of Order No. 15-049 are resolved. No matter the outcome of the remaining disputes, NW Natural should begin amortizing the significant deferred environmental remediation costs and begin collecting \$5 million in rates for future environmental remediation costs. Staff believes it is not sensible to delay amortization until every detail regarding implementation of Order No. 15-049 is finally resolved. It is better to have reasonably approximate rates now and make adjustments later as needed to comply with Commission direction.

As discussed above, NW Natural submitted its "final" proposed compliance filing to Commission Order No. 15-049. In these revisions, the Company proposed modifications to the amounts that should ultimately be flowed through the SRRM. These revisions, as well as any changes that result from the Commission's determination of disputed issues regarding implementation of Order No. 15-049, will be reflected and implemented as appropriate through next year's PGA. NW Natural has acknowledged the possibility of these changes and has committed to adjusting the SRRM balance in the future to account for any variances to the balance that result from the Commission's determinations concerning the Company's compliance filing. All of these changes will be made prior to when the next PGA filing is made for November 1, 2016.

The Company has reviewed this memo and has no issues.

**PROPOSED COMMISSION MOTION:**

The Commission approve Northwest Natural's filing for rates reflective of Environmental Cost Recovery and the Site Remediation Recovery Mechanism and that the associated tariff sheets be allowed to take effect on November 1, 2015.