

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 12, 2017

REGULAR CONSENT EFFECTIVE DATE November 1, 2017

DATE: October 3, 2017

TO: Public Utility Commission

FROM: Scott Gibbens *SG*

THROUGH: Jason Eisdorfer *J* and John Crider *J*

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 330/Advice No. 17-08)
Revises Site Remediation Recovery Mechanism (SRRM) Schedule 183.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural or Company) filing for rates reflective of Environmental Cost Recovery and the Site Remediation Recovery Mechanism (SRRM) and make the rates effective November 1, 2017.

DISCUSSION:

Issue

Whether the Commission should approve the Company's request to update the rate increments in its Schedule 183 (relating to the SRRM) to reflect the continued recovery of deferred environmental remediation costs and offset future environmental remediation costs.

Applicable Rule or Law

1. ORS 757.259(5) states that unless subject to an automatic adjustment clause, amounts deferred under ORS 757.259 shall be allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. The Commission may require that amortization of deferred amounts be subject to refund. The Commission's final determination on the amount of deferrals allowable in the rates of the

utility is subject to a finding by the Commission that the amount was prudently incurred by the utility.

2. ORS 757.259(6) states that the overall average rate impact of the amortizations authorized under this section in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year.
3. Commission Order No. 12-437 at pages 31-32 sets out the applicable interest rates to use for deferral accounts and to use when such amounts are amortized under the SRRM.
4. OAR 860-027-0300(9) states that amortization in rates of a deferred amount is allowed only as authorized by the Commission and provides parameters for the submission of amortization requests. Upon request for amortization of a deferred account, the energy or large telecommunications utility must provide the Commission with its financial results for a 12-month period or for multiple 12-month periods to allow the Commission to perform an earnings review. The period selected for the earnings review will encompass all or part of the period during which the deferral took place or must be reasonably representative of the deferral period.
5. The SRRM was initially adopted in Order No. 12-437, Docket UG 221. It was revised with a series of Orders issued in Docket No. UM 1635. Order Nos. 15-049 and 16-029 are the most relevant of these Orders for this filing. The SRRM provides for a mechanism for recovery of past remediation costs, a review of deferred remediation expenditures for prudence prior to amortization, a tariff rider, and insurance recovery with application of an earnings test.

Analysis

The purpose of the filing is to update Schedule 183 with continued recovery of deferred environmental remediation costs consistent with the SRRM mechanism. Annual deferrals of environmental remediation costs have been authorized in Order Nos. 16-066 and, most recently in Order No. 17-148. Annual prudence reviews of environmental remediation costs have been reviewed and approved by Staff in Docket No. UM 1732.¹

This proposed tariff adjustment reflects the per therm effect of the amortization of one-fifth of the SRRM Account balance, as calculated by NW Natural, on customer rates.

¹ Subject to Commission Approval on October 12, 2017.

For purposes of this filing, the Company has applied the amount of \$7.4 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, 2017. The current balance in the SRRM account as of October 31, 2017 is expected to be negative. This results in the expected balance of \$6.4 million (including revenue sensitive effects) to be amortized over the course of the year.

The effect of this temporary adjustment is to decrease the Company's revenues by \$3,872,212 or -0.6 percent. The monthly bill of the average residential customer served under Rate Schedule 2 using 50 therms per month will decrease by 37 cents, or -0.7 percent. The monthly decrease for the average commercial Rate Schedule 3 customer using 231 therms is about \$1.18, or -0.5 percent, and the monthly decrease for the average commercial Rate Schedule 31 customer using 2,878 therms is about \$10.57, or -0.5 percent. The average Rate Schedule 32 firm sales industrial customer using 18,967 therms will see a monthly decrease of about \$34.11, or -0.4 percent.

The number of customers affected by the proposed changes described above is 588,720 residential customers, 60,839 commercial customers, and 942 industrial customers.

Staff reviewed the previous orders associated with NWN's SRRM, the company's initial filing, the workpapers showing the calculation of the SRRM balance, amortization and rate spread. Staff finds that the proposed amortization complies with all previous Commission orders, the amounts were calculated correctly, and the resulting rates are reasonable and fair. The proposed amortization will not exceed three percent of the utility's gross revenues for the preceding calendar year.

Conclusion

Based on the review of this application, Staff concludes:

1. The Company's proposed rate change complies with previous Commission orders;
2. The Company's accounting for the SRRM and subsequent rate impact is accurate; and
3. The temporary adjustment results in fair and reasonable rates.

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PROPOSED COMMISSION MOTION:

Approve Northwest Natural's filing and the associated tariff to take effect for service on and after November 1, 2017.

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