ITEM NO. CA1

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

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **November 1, 2017**

DATE: October 4, 2017

TO: Public Utility Commission

FROM: Lance Kaufman

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: (Docket No. UG 332/Advice No. 17-10) Request for Amortization of Certain Non-Gas Cost Deferred Accounts Related to Distribution Margin Normalization.

STAFF RECOMMENDATION:

Staff recommends approval of Northwest Natural Gas Company's (NWN or Company) request to revise its Tariff, P.U.C. Or. 25 (Tariff) relating to its Schedule 190 rates and the Company's accompanying request for amortization of certain non-gas cost deferred accounts relating to Distribution Margin Normalization (DMN) with an effective date of November 1, 2017.

Further, Staff recommends that Commission close Docket No. UG 312.

DISCUSSION:

Issue

Whether the Commission should approve the Company's request to revise its Schedule 190 rates and to allow for amortization of deferrals tracked through Distribution Margin Normalization ("Partial Decoupling" or "DMN") mechanism.

Applicable Law

I. ORS 757.259 authorizes the Commission to amortize deferred utility expenses or revenues into rates to the extent authorized by the Commission in a proceeding to change rates and after a review for prudence. Amortizations under an automatic adjustment clause such as these do not require an earnings review.

II. ORS 757.259(4) states that the Commission may authorize deferrals under subsection (2) of this section beginning with the date of application, together with interest established by the Commission. A deferral may be authorized for a period not to exceed 12 months beginning on or after the date of application.

III. ORS 757.262 authorizes to set rates to encourage acquisition of cost-effective conservation resources.

IV. Commission Order No. 08-263, modified by Order No. 10-279, sets out the interest rate to use for deferral accounts and the interest rate to use when such amounts are amortized.

V. On September 12, 2002, the Commission issued Order No. 02-634, adopting a Stipulation introduced by NWN, Staff, and the Community Action Directors of Oregon which allowed the Company to defer margins and recover 90 percent of the differentials between the weather-normalized usage and the baseline usage through the Partial Decoupling mechanism. This mechanism is an automatic adjustment mechanism.

VI. On August 25, 2005, the Commission issued Order No. 05-394, which modified the Company's decoupling mechanism by allowing 100 percent recovery of the differentials through September 30, 2009.

VII. On September 26, 2007, the Commission adopted a Stipulation signed by the Parties to Docket Nos. UG 152 and UG 163, wherein the decoupling mechanism was extended from September 30, 2009, to October 31, 2012.

VIII. On October 26, 2012, the Commission issued Order No. 12-408, which adopted a Stipulation signed by the Parties to Docket No. UG 221, wherein the decoupling mechanism was extended again. This stipulation included a number of changes to the mechanism, including the removal of the baseline usage elasticity adjustment.

IX. On June 24, 2014, the Commission issued Order No. 14-248, which adopted modified PGA filing guidelines. Guideline VI (7) states in part that "should it appear that there are issues remaining that require process beyond that provided by the public meeting, then any party may move to suspend the PGA docket and file a request for further investigation pursuant to ORS 756.500 to 756.515 and ORS 757.210." Guideline VI (8) states "If the PGA schedule for an LDC is suspended, pending additional investigation and process, the parties agree to support a staff recommendation to the Commission that rates go into effect subject to refund."

Analysis

NWN recovers a portion of its fixed costs through volumetric rates. During each rate case, rates are set in a manner that if the Company had the expected number of customers, and on average the customers consume the expected amount of gas, the Company will recover all fixed costs. If customers use less gas than predicted, the Company may not recover all of its fixed costs. The difference between actual use and expected use per customer has two components, weather related and non-weather related. NWN addresses non-weather related differences through its DMN mechanism. The DMN mechanism tracks a portion of the under- or over-collection of revenues in a deferred account. The DMN mechanism then recovers revenue shortfalls and refunds excess revenues by adjusting the per-therm rate the Company charges for gas every 12 months.

The Company's proposed residential deferral balance to amortize over the next PGA year is $1,024,808. The proposed commercial deferral balance to amortize over the next PGA year is $11,354,223. To amortize this balance, NWN requests a temporary rate adjustment (increase) of $0.00290 per therm for residential Rate Schedule 2, and $0.06121 per-therm for commercial Rate Schedules 3 and 31.

Staff's review of this filing includes a review of the calculated deferral balance and the rate amortizing the deferral balance. The Company accrues DMN deferrals on a monthly basis by calculating the difference between baseline use per customer, as identified in Docket No. UG 221, and the weather normalized use per customer. The deferral balance accrues interest at the rate of the Company's weighted average cost of capital. The Company calculates and compounds this interest monthly. Monthly interest is calculated by multiplying the monthly rate times the beginning of month deferral balance plus one half of the new current month deferral.

Staff reviewed the calculations of interest for both the deferral and amortization period. Staff has reviewed and finds no issue with the forecasted load and the calculations of the per-therm charge required to recover the amortization balance. As an automatic adjustment clause this deferral is not subject to an earnings review.

During Staff's review of the Company's calculations, Staff observed that the average balance of the DMN account has grown substantially since 2009. This growth warrants further investigation at NWN's next general rate case, or the next time the DMN is reviewed for extension by the Commission.

Review of 2016 DMN Filing
NWN's 2016 DMN filing was investigated by Staff under Docket No. UG 312. During the 2016 PGA Special Public Meeting the Commission adopted Staff's recommendation to keep Docket No. UG 312 open pending further investigation. Staff continued to investigate the issues raised in the Docket No. UG 312 Staff Memo during 2017. Staff found that the issues raised in the memo did not warrant further action by the Commission, given the relatively small dollar values involved, and that the administrative costs necessary to remedy the issues likely outweigh the benefits to customers. For these reasons, Staff recommends that Docket No. UG 312 be closed without further investigation.

Conclusion

Staff has reviewed the rates included in this filing and finds that the Company has accurately implemented the DMN deferral and amortization mechanism. Staff recommends approval of Northwest Natural Gas Company's (NWN or Company) request to revise its Tariff, P.U.C. Or. 25 (Tariff) relating to its Schedule 190 rates and the Company's accompanying request for amortization of certain non-gas cost deferred accounts relating to Distribution Margin Normalization (DMN) with an effective date of November 1, 2017.

Further, Staff recommends that Commission close Docket No. UG 312.

The Company has reviewed this memorandum and has no objection to it.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural Gas Company's proposed Schedule 190 rates, as described in Advice No. 17-10, subject to refund effective with service on and after November 1, 2017, and close Docket No. UG 312.