

ITEM NO. CA15



PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 24, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE January 5, 2017

DATE: January 10, 2017

TO: Public Utility Commission

FROM: Judy Johnson 

THROUGH: Jason Eisdorfer and Marc Hellman  

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1807) Requests Authorization for Deferred Accounting of Costs Associated with an Interstate Storage Cost Allocation Study.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural's (NW Natural or Company) application for deferred accounting of costs for the twelve month period from January 5, 2017, to January 4, 2018, related to hiring a neutral third party to conduct an evaluation and cost allocation study (Study) of the Company's revenue sharing mechanisms associated with its interstate storage and optimization activities.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's request for deferred accounting for costs related to hiring a neutral third party to conduct a Study of the Company's revenue sharing mechanisms associated with its interstate storage and optimization activities.

Applicable Rule or Law

NW Natural submitted its deferral application on January 5, 2017, pursuant to ORS 757.259 and OAR 860-027-0300. ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities.

Analysis

Background

In Docket No. UM 1654, *In the Matter of NW Natural, Investigation of Interstate Storage and Optimization Sharing*, the Commission reviewed NW Natural's revenue sharing arrangement relating to NW Natural's interstate storage and optimization activities.¹ In that docket, the Commission issued Order No. 15-066, which directed that a cost allocation study and evaluation be performed by a neutral third party (Study).² In the Order, the Commission authorized NW Natural to receive cost recovery for the Study.³ On January 5, 2017, NW Natural filed its application to defer expenses for costs associated with its independent third party's interstate storage cost allocation study.

Following the issuance of the Order, NW Natural, the Staff of the Commission, the Citizens' Utility Board of Oregon, and the Northwest Industrial Gas Users formed a Steering Committee, as directed by the Commission. The Steering Committee convened several times for the purpose of hiring a third party independent evaluator. On August 11, 2016, the Steering Committee issued an RFP to an agreed upon list of potential independent evaluators. The Steering Committee interviewed three responders to the RFP and agreed to hire one of the consultants to perform the Study. NW Natural, with guidance from the Steering Committee, is currently negotiating a contract for the Study with that consultant. NW Natural anticipates the consultant will begin performing the Study in January 2017.

Reason for Deferral

NW Natural states that the granting of this Application will minimize the frequency of rate changes and match appropriately the costs borne by and benefits received by customers. The Company also notes that the Commission previously authorized NW Natural to recover the costs of the Study.

Proposed Accounting

NW Natural proposes to account for the costs associated with the consultant by recording the deferral in Account 186420. In the absence of approval of deferred accounting, NW Natural would record the amounts in an operations and maintenance account affecting the Company's income statement.

¹ *In the Matter of NW Natural, Investigation of Interstate Storage and Optimization Sharing*, Docket No. UM 1654, Order No. 15-066 (Mar. 5, 2016).

² *Id.* at 5-6.

³ *Id.* at 6.

Estimated Deferrals in Authorization Period

NW Natural estimates the amounts subject to the deferral would total approximately \$239,200.

Information Related to Future Amortization

- Earnings Review – ORS 757.259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e).
- Prudence Review – For amortization, a prudence review should be completed to verify prudence of the costs.
- Sharing – The Commission Order No. 15-066 did not mandate any sharing. Therefore Staff does not recommend any sharing of the cost being considered for deferral.
- Rate Spread/Design – Account balances will be spread to the appropriate customer classes on the same basis as was done in past Commission orders for these types of costs.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year. Subsection (7) permits the Commission to allow an overall average rate impact greater than three percent for a natural gas utility if the commission finds that allowing a higher amortization rate is reasonable under the circumstances.

Conclusion

Staff concludes that the Company's application to authorize deferral of the costs related to hiring a neutral third party to conduct an evaluation and cost allocation study of the Company's revenue sharing mechanisms associated with its interstate storage and optimization activities is consistent with ORS 757.259, and should be approved by the Commission.

NW Natural has reviewed a draft of this memo and voiced no concerns.

PROPOSED COMMISSION MOTION:

Approve NW Natural's application for deferred accounting of costs for the twelve month period from January 5, 2017, to January 4, 2018, related to hiring a neutral third party to conduct an evaluation and cost allocation study of the Company's revenue sharing mechanisms associated with its interstate storage and optimization activities.

NWN UM 1807