

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 17, 2016

REGULAR X CONSENT _____ EFFECTIVE DATE June 1, 2016

DATE: May 11, 2016

TO: Public Utility Commission *LK*

FROM: Lance Kaufman *LK*

THROUGH: Jason Eisdorfer and Marc Hellman *JE*

SUBJECT: NORTHWEST NATURAL: (Docket No. ADV 296/Advice No. 16-06)
Schedule 164A Special Purchased Gas Adjustment Credit.

STAFF RECOMMENDATION:

Staff recommends that Advice No. 16-06 and Schedule 164A be approved, with less than statutory notice, effective with service on and after June 1, 2016. Staff also recommends that the prudence and calculations of the values underlying Schedule 164A remain subject to final review in NW Natural's 2016 Purchased Gas Adjustment proceedings.

DISCUSSION:

Issue

Whether much of the per therm credit due to decreased gas costs should be provided to customers in June rather than wait for the PGA.

Applicable Law

NW Natural's PGA is an automatic adjustment clause established under ORS 757.210. NW Natural must seek deferral of these costs under ORS 757.259 and OAR 860-27-0300 on an annual basis. NWN's 2015-2016 PGA deferral period was authorized by Order No. 15-337 on October 20, 2015. Under the PGA Guidelines authorized in Order No. 09-264, NW Natural is allowed to defer gas commodity and demand costs so that a portion of these costs can be recovered or returned to customers.

Discussion and Analysis

The current filing addresses only the variable cost of gas portion of the PGA deferral. This portion of the deferral is subject to an 80 percent/20 percent sharing mechanism

that allows NW Natural to retain 20 percent of the variable cost of gas savings. In years with under collection of gas costs, NW Natural shareholders bear the burden for 20 percent of the additional costs. This sharing mechanism is authorized under Order Nos. 08-504 and 11-196 in Docket No. UM 1286. These orders provide NW Natural an opportunity to annually elect among several different sharing proportions for the following year's deferral.

The balance of this deferral is typically amortized over the subsequent PGA year, in this case November 2016 through October 2017. In this filing, NW Natural is requesting to return a substantial portion of the balance as a single lump sum customer credit through Schedule 164A. Due in part to unexpectedly warm weather, and other market factors, recent natural gas (gas) commodity prices have been lower than anticipated. This has resulted in an over-collection of approximately \$19 million in commodity costs between November 2015 and March 2016. This filing is not precedential, as Commission has previously approved similar filings in the past where refunds were provided to customers earlier than through the PGA.

Schedule 164A is a schedule that was created for this purpose on May 19, 2009, through NW Natural Advice No. 09-07. Schedule 164A provides a lump sum payment to customers in their June bill. This payment disperses deferred savings accumulated during a fixed set of months in the previous year. The deferral is dispersed to customers on an equal-cents-per therm basis based on the customer's usage during the deferral months included in the credit.

NW Natural proposes to return the majority of the deferral through a one-time June 2016 bill credit. Staff requested that the Company not return the full amount to mitigate the potential for a PGA-related increase in October thereby helping to ensure more stable pricing. Over the last five months, NW Natural's gas deferral has accumulated a larger than average credit. The total commodity collections for November 2015 through March 2016 were \$138 Million while the actual costs were \$110 Million, an over collection of 24 percent. After sharing and other adjustments, this over collection results in a deferral of \$15 million and a deferral balance of \$20 million.

While this level of over collection is not abnormal, it is higher than average for this time of year. The previous two instances of Schedule 164A being implemented involved credit distributions of \$34 million each.

Staff has reviewed NW Natural's work papers and finds that the values were appropriately computed. However, this review did not include a review of actual gas costs for prudence.

The credit in this filing will overlap substantially with an annual true-up charge for WARM customers. The WARM program performs a True-up on June bills for a small portion of customers. This is an adjustment that is currently effective and independent of this filing. The true-up charge for WARM customers has recently caused elevated levels of customer complaints. As part of Docket No. UM 1750, the parties have come to agreement on an appropriate remedy to the June true-up, but the stipulation has not yet been filed. The remedy is not applicable to the June 2016 true-up. Customers experiencing a June true-up have smaller than average usage, and as a result the Schedule 164A credit for these customers will also be smaller than average. However, this filing will provide some relief for these customers and may reduce customer concern regarding the WARM true-up.

There is a slight distributional impact from returning the deferral through Schedule 164A rather than through the normal PGA process. The distributional impact is based on the deviation in gas use for the historic year and the future year. Last year was an abnormally warm winter. Next year is expected to be a normal winter. Customers that have a low level of sensitivity to weather represent a greater than normal proportion of historic gas use. Customers with a low level of sensitivity to weather will receive a larger portion of the credit under this filing than they would under a normal PGA amortization. In terms of customer classes, Staff observes that the treatment in this filing may favor industrial customers, but it is not certain as we do not know the weather for next year with certainty. Additionally, there is no basis to say that amortization over the following PGA year (the standard approach) is more favorable or accurate than returning a deferral closer in time, based on actual usage during the time in which the deferral was built up. Given the uncertainty surrounding this issue, the matching of the deferral and usage during the time in which the deferral was built up, and the known benefits of the filing, Staff finds that the potential distributional shift is an acceptable approach.

Staff has been apprised that NW Natural contacted both NWIGU and CUB regarding this filing and both of these customer groups do not oppose the NWN tariff filing. NW Natural has reviewed this memo.

Conclusion

Staff finds that this filing is appropriate. By retaining \$3 million of the current deferral balance for the PGA amortization NW Natural provides an appropriate balance to help mitigate the potential for a PGA-related increase this October.

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PROPOSED COMMISSION MOTION:

Approve, on less than statutory notice, NW Natural Advice No. 16-06 and approve Schedule 164A with an effective date for service on and after June 1, 2016.

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