ITEM NO. CA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 18, 2016

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __**November 1, 2016**__

DATE: October 10, 2016

TO: Public Utility Commission

FROM: Lance Kaufman LK

THROUGH: Jason Eisdorfer and Marc Hellman JE

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 312/Advice No. 16-16A) 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, 2014.

Further, Staff moves that Commission keep Docket No. UG 312 open for further investigation of the DMN deferral calculation methodology in accordance with Staff and the Company's Joint Motion set forth in this memorandum.

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 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 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 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 $1,918,907. The proposed commercial deferral balance to amortize over the next PGA year is $11,134,460. To amortize this balance, NWN requests a temporary rate adjustment (increase) of $0.00555 per therm for residential Rate Schedule 2, and $0.05944 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 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.

During Staff's review of the Company's calculations, Staff identified a potential inconsistency between the Company's calculation of baseline *use* per customer and *actual number* of customers. The baseline use per customer established in UG 221 identifies the baseline use per customer. When calculating the monthly deferral, the Company counts the number of bills in the month. However, due to customer churn, some customers are not customers for every day of a month. Staff calculates that on average, new customer bills cover 22 days of use. [1] Staff's preliminary evaluation indicates that the Company may have over-estimated baseline usage for both commercial and residential customers by approximately one percent.

Staff's investigation of this issue is not yet complete; and, Staff and the Company are working collaboratively to determine if there are any errors in the Company's calculation of the decoupling deferral. Staff and the Company have agreed to work in good faith towards resolution prior to the initial filing date of NWN's 2017 PGA, and to schedule a workshop prior to December 31, 2016 if the parties agree that a workshop is necessary. Staff and the Company agree that if it is determined that an error was made, the 2017 PGA would include an adjustment to correct for the error to the 2016 PGA deferral calculations.

Staff reviewed the calculations of interest for both the deferral and amortization period. Staff notes a potential timing discrepancy between the date that NWN begins accruing interest for a deferral and the time the Company receives actual revenue for the corresponding billing period. Staff requires additional time to analyze the revenue timing assumptions implicit in NWN's last rate case and additional analysis of the actual timing relationship between decoupled periods and corresponding revenue.

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.

Conclusion

Parties have agreed to work collaboratively to validate NW Natural's calculation of the decoupling deferral, and to adjust rates if necessary to correct an error. Staff and the Company have agreed that any such adjustments should be applied to the 2016 PGA period. Notwithstanding Staff's concerns regarding the deferral calculation, Staff concludes that the rates proposed in this filing are correctly calculated.

[1] In follow-up discussions with NWN, NWN indicated that the Company may adjust customer count to prevent double counting premises receiving multiple bills in a single month. NWN also performs an adjustment for unbilled therms when calculating actual useage. This adjustment may compensate for the shortened billing period of new customers. Both of these factors mitigate the issue raised by in this memo regarding partial month bills.

Staff and Company Joint Motion
Pursuant to ORS 756.500 to 756.515 and ORS 757.210, and in accordance with PGA Guidelines 7 adopted in Commission Order No. 14-238, Staff moves to suspend Docket No. UG 312 for further investigation.

Further, pursuant to ORS 757.215(4) and PGA Guideline 8, Staff requests that the rates at issue in Docket UG 312 not be suspended and be allowed to go into effect subject to refund. In addition, after discussions with the Company, Staff and the Company jointly propose that the only rates subject to refund would be those related to the potential errors with the DMN mechanism that Staff has identified in this memorandum. Should Staff's investigation lead to other matters that could result in a proposed refinement to the decoupling mechanism, but do not constitute an error with it, those proposed refinements would be applied prospectively only and the UG 312 rates associated with such refinements would not be subject to refund in this proceeding.

The Company has reviewed Staff's 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. 16-16A, subject to refund effective with service on and after November 1, 2016.

Withhold final determination of Docket No. UG 312 pending ongoing investigation of the DMN deferral calculation methodology in accordance with Staff and the Company's stipulated motion set forth in this memorandum.