

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 24, 2019**

REGULAR CONSENT EFFECTIVE DATE November 1, 2019

DATE: October 8, 2019

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1798(3)) Reauthorization to Defer Revenues and Expenses Related to Schedule 195, Weather Adjusted Rate Mechanism (WARM).

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural or Company) application for authorization of deferred accounting for revenues and expenses relative to Schedule 195, Weather Adjusted Rate Mechanism (WARM), for the twelve month period beginning November 1, 2019.

DISCUSSION:

Issue

Whether the Commission should approve Commission approve Northwest Natural's application for authorization of deferred accounting revenues and expenses related to Schedule 195, (WARM).

Applicable Law

In accordance with ORS 757.259(2), utilities may seek approval to defer amounts for later inclusion in rates to minimize the frequency of rate changes or to appropriately match customer benefits and costs. OAR 860-027-0300(4) requires the utility to provide certain information in an application to defer, such as the reason for the deferral, estimated amount of the deferral, etc.

Analysis

Background

The WARM program, adopted in NW Natural's general rate case UG 152, modified the rate structure for residential and commercial customers to remove weather-related variability from fixed-cost recovery. During the WARM heating season from December 1 to May 15, the customer's monthly per-therm rate is adjusted to account for winter weather. In warmer weather, these adjustments increase a customer's bill, and colder weather causes a decrease. Customers are automatically enrolled in the WARM program, though they may opt-out within 30 days of becoming a new customer, or outside of the heating season - between May 16 and October 1.

Pursuant to Commission Order No. 16-223 (Order) issued in Docket No. UM 1750, the Company revised Schedule 195, revising the WARM program that impacts commercial and residential customer bills for the period beginning December 1, 2016. The changes were as follows:

Residential Bills

The maximum WARM adjustment increase applied to a monthly bill during the WARM Period will be twelve dollars (\$12.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. The maximum WARM adjustment credit applied to a monthly bill during the WARM Period will be twelve dollars (\$12.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less.

Commercial Bills

The maximum WARM adjustment increase applied to a monthly bill during the WARM Period will be thirty-five dollars (\$35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. The maximum WARM adjustment credit applied to a monthly bill during the WARM Period will be thirty-five dollars (\$35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less.

The Order established that any amounts not applied to a customer's bill during the WARM Period due to the cap and floor described above will be deferred in a residential or commercial deferral account and then amortized on an equal cent per therm basis through the annual Purchased Gas Adjustment (PGA) process to rate schedules 2 and 3 customers, respectively, over the 12 month period November 1 through October 31 of each year.

In accordance with the Order, the Company accrues interest on the deferred amounts at the Modified Blended Treasury Rate, plus 100 basis points; the Company accrues interest during the amortization period at the Modified Blended Treasury Rate. The

Order also acknowledged that the deferred amount is not subject to an earnings test, given the fact that the WARM mechanism is an automatic adjustment clause.

Description of the Expenses or Revenues

NW Natural will defer any amounts not applied to customer bills during the WARM Period due to the monthly cap and floor in accordance with the Order No. 16-223. The deferred amounts may result in a charge or credit to customers depending on the variability in the weather during the WARM period.

Proposed Accounting

NW Natural proposes to account for the WARM deferral amounts by recording the deferral in FERC Account 186 in two separate accounts (residential and commercial).

Estimated Deferrals in Authorization Period

NW Natural cannot estimate the amounts that will be recorded in the WARM deferral account for the upcoming twelve-month period because the amount is dependent on the affect that weather may have on customer use.

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). Because this deferral is an automatic adjustment clause, there is no earnings test required.
- Prudence Review – Prior to amortization, a prudence review will be conducted. The review should include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Staff believes the Commission did not authorize sharing between NW Natural and its customers for this deferral.
- Rate Spread/Design – The Order established that any amounts not applied to a customer's bill during the WARM Period due to the cap and floor described above will be deferred in a residential or commercial deferral account and then amortized on an equal cent per therm basis through the annual Purchased Gas Adjustment (PGA) process to rate schedules 2 and 3 customers, respectively, over the 12 month period November 1 through October 31 of each year.
- 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.

Conclusion

Staff concludes that the Company's application for authorization of deferred accounting for revenues and expenses related to Schedule 195, WARM, meets the requirements and should be approved.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's application for reauthorization of deferred accounting for revenues and expenses related to Schedule 195, WARM, for the twelve month period beginning November 1, 2019.