

ITEM NO. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 11, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE July 12, 2017

DATE: July 3, 2017

TO: Public Utility Commission

FROM: Scott Gibbens *SG*

THROUGH: *J* Jason Eisdorfer and *A* Marc Hellman

SUBJECT: NORTHWEST NATURAL GAS: (Docket No. ADV 576/ Advice No. 17-03)
Requests approval of an optional program designed to improve residential customer access to end-use natural gas appliances in the multi-story, multifamily residential market.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural Gas' (NWN or Company) Advice No. 17-03 requesting the approval of Schedule 405 and Schedule 4, an optional program to offer low end-use natural gas appliances to new multi-story residential buildings, effective on and after July 12, 2017.

DISCUSSION:

Issue

Whether the commission should allow NWN to implement a program which would provide a cash incentive to qualifying apartment buildings designed to improve residential customer access to end-use natural gas appliances in the multi-story, multifamily residential market.

Applicable Rule or Law

NWN filed ADV 576 under ORS 757.205 on June 2, 2017. Under ORS 757.205, et seq., public utilities must file proposed changes to rates, schedules, rules, or regulations with the Commission. OAR 860-022-0025 specifies that such filings shall plainly indicate the proposed change, the number of customers affected by the proposed

change and the resulting change in revenue, including a detailed statement setting forth the reasons or grounds relied upon in support of the proposed charge.

Analysis

In its application, NWN notes that it has seen an increase in the number of multi-story, multifamily buildings in its service area since 2014. Currently, NWN does not have a tariff that is tailored to the specific circumstances of multifamily, multi-story residential units. This has resulted in a situation where multi-family, multi-story buildings often make use of natural gas as a commercial customer, for centralized uses only, such as boilers for water heat or to serve ground-floor commercial spaces. However, there is usually no availability of natural gas to the individual residential tenants of these buildings. This means that tenants of these buildings are unable to use natural gas for cooking, clothes drying, or barbecuing.

In researching the issue, NWN found that tenants often prefer and are willing to pay for natural gas appliances, but the initial cost of installation of the houseline for developers means that natural gas service to individual units is rarely provided. NWN proposes to implement a program which would provide \$750 to developers for every qualifying unit in a new apartment building to help cover the costs of installing natural gas service lines beyond the commercial meter. The program is designed to be self-contained so that only those customers receiving benefit from it will provide recovery of the initial investment.

Under proposed Schedule 405, NW Natural would invest \$750.00 per residential tenant unit where low-use gas appliances (range/cooktop, dryer, or barbecue) are installed by a developer of a qualifying multi-story multi-family building. To qualify, the building must be a minimum of three stories with two or more residential living units stacked vertically ("Qualified Multi-Family Building") and must have centralized use gas equipment installed and served under a commercial service rate schedule. In order to receive payment, the developer must complete the following steps:

- Install houseline from the commercial meter connection to the individual tenant units in which one or more low-use gas appliance is installed,
- Install shut-off valves along the houseline for each tenant unit, and at any other locations within the building that NW Natural deems necessary, and
- Install in-unit gas appliances, inspected and approved by NW Natural.

The purpose of Schedule 4 is to establish the monthly fixed charge applicable to individual tenants of Schedule 405 participant buildings that enroll in natural gas service. The monthly fixed charge is derived using a standard cost-of-service rate model and a 20-year amortization period. The total capital investment per unit is \$790 (\$750 incentive plus \$40 for the shut-off valve). The cost of service model also includes a component to cover annual incremental O&M expense associated with the customer. After adjusting for applicable taxes and depreciation plus a return on the capital investment at the Company's authorized weighted average cost of capital (7.78 percent), the result is an annual cost of service of \$122.98 per unit, which results in a flat monthly customer charge of \$10.25.

The shut-off valves are required in order to provide safety and control, similar to all other residential customers. Although tenants will not be charged per therm of gas used, they will be treated as a standard customer in every other way. Because only low end-use appliances are eligible for this program, the risk of exploitation is minimal.

NWN proposes to create a regulatory asset, which mirrors other stand-alone programs such as Schedule X, Distribution Facilities Extensions for Applicant-Requested Services and Mains. This is designed to keep the costs of the program outside of other schedules recovery as revenues and costs offset overtime.

Staff reviewed the filing and workpapers to ensure the program provided a valuable service to those enrolled, there were no calculation errors in the customer charge calculation, tariff language was complete and understandable, and no non-program customers would be financially burdened to pay for this program. Prior to the filing, Staff met with NWN twice in order to discuss and provide input around the design of the program. Staff also corresponded with NWN after the application was submitted to clarify an issue around the proposed accounting treatment. Staff found no issues with the calculations, tariff additions, or stated value of the program. As noted above, Staff did find that the proposed accounting treatment may result in a small impact to customers on other schedules in the first few years of the program. Staff and the Company agreed to review the programs impact during its next two general rate cases and make any necessary adjustments to ensure that no other rate schedules end up paying for this program.

The Company was provided a draft version of this memo and has no comments or objections.

Docket No. ADV 576/Advice No. 17-03
July 3, 2017
Page 4

Conclusion

Staff reviewed NWN's filing and workpapers. Staff believes that the proposed program offers a valuable service to customers in its service territory, will not impact any non-participant ratepayers, and therefore recommends approval of ADV 576.

PROPOSED COMMISSION MOTION:

Approve NWN's Advice No. 17-03 to be effective on and after July 12, 2017.

NWN Advice 17-03