

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: December 27, 2022**

**REGULAR**  **CONSENT**  **EFFECTIVE DATE** \_\_\_\_\_

**DATE:** December 16, 2022

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

**THROUGH:** Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UM 2256)  
Deferred Accounting Related to Residential Rate Mitigation.

**STAFF RECOMMENDATION:**

Staff recommends the Public Utility Commission of Oregon (Commission) approve Northwest Natural Gas Company's (NW Natural, NWN, or Company) application for deferred accounting related to residential rate mitigation for the 12-month period beginning November 1, 2022.

**DISCUSSION:**

Issue

Whether the Commission should authorize NW Natural's application to defer revenue that will be uncollected due to application of temporary bill credits applied by NWN to offset the effect of rate increases approved in NWN's recently concluded rate case and its Purchase Gas Adjustment Mechanism proceeding.

Applicable law

A gas utility must seek deferral of these costs on an annual basis pursuant to ORS 757.259 and OAR 860-27-0300.

In addition, according to ORS 757.259(2)(e), and under the PGA mechanism and pursuant to ORS 757.259(4), the Commission may authorize utilities to defer actual purchased gas costs for a 12-month period. If the utility's earnings are not excessive as

defined by OAR 860-022-0070, the differences between forecasted and actual costs for annual demand and commodity related gas costs is incorporated into rates.

## Analysis

### *Background*

Throughout 2022, the global natural gas commodity market has experienced significant volatility, which has resulted in higher natural gas costs in NW Natural's 2022 Purchase Gas Adjustment (PGA). This trend is described further in NW Natural's Docket No. UG 457 and addressed in Commission Order No. 22-421.

The approximate bill impact of the higher commodity cost during this period is a 15 percent increase to bills for the upcoming winter heating season. NW Natural's base rates also increased with Order No. 22-388 in the Company's recent general rate case Docket No. UG 435.

The combined impact of these two rate changes would likely be an approximately 25 percent increase to customers' bills. Therefore, NW Natural and the Oregon Citizens' Utility Board (CUB) proposed an innovative solution to mitigate the upcoming rate changes for NW Natural's residential customers during this heating season. NW Natural's winter rate mitigation proposal described in Docket No. UG 459 was approved in Commission Order No. 22-425.

NW Natural's heating season rate mitigation establishes a temporary residential volumetric bill credit representing approximately 10 percent of the expected bills from November 1, 2022, through March 14, 2023. During this period, NW Natural will defer the uncollected revenues caused by the temporary bill credits. The deferred revenues will then be collected (amortized) from residential customers from March 15, 2023, through October 31, 2023, which are typically lower consumption months, and thus lower bills, for these customers.

### *Reason for Deferral*

Deferring revenue will benefit the Company's residential customers because it will reduce these customers' bills during the winter heating season, when residential natural gas bills are typically at their highest. This mitigation is designed to provide meaningful relief to customers in these high usage months and to protect customers from extreme cold weather events that are most likely to occur from November through March. These events lead to higher natural gas consumption, which ultimately cause higher bills.

*Proposed Accounting*

Beginning on November 1, 2022, and ending March 14, 2023, NW Natural proposes to account for the revenues associated with the residential rate mitigation by recording the deferral in a FERC Account 186. NW Natural has requested a 12-month period for the deferral so that any residual balances in the deferral account could be later amortized (credit or surcharge) to customers in a future PGA year.

*Estimated Deferrals in Authorization Period*

NW Natural cannot estimate the expected deferral at this time because residential customer usage significantly varies with weather during the winter months.

*Information Related to Future Amortization*

- Earnings Review – An annual spring earnings review will be conducted pursuant to OAR 860-022-0070. No earnings test is assumed to be carried out for this deferral given the reason for the deferral.
- 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 – No sharing will occur with this deferral as it is related to the rate mitigation credit.
- Rate Spread/Design – The deferral will be recovered from residential customers.
- 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 (exceptions at ORS 757.259(7) and (8)) 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

Based on its review of NW Natural's application, Staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259.

Additionally, the Company's application for authorization of deferred accounting meets the requirements related to the establishment of the PGA mechanism, as well as the requirements of ORS 757.259 and OAR 860-027-0300.

The Company has reviewed this memo and agrees with its contents.

**PROPOSED COMMISSION MOTION:**

Approve Northwest Natural's application for authorization for deferred accounting related to Residential Rate Mitigation for the 12-month period beginning November 1, 2022.