

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 7, 2023**

REGULAR **CONSENT** **EFFECTIVE DATE** March 15, 2023

DATE: February 23, 2023

TO: Public Utility Commission

FROM: Ishraq Ahmed

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

SUBJECT: NORTHWEST NATURAL GAS COMPANY:
(Docket No. ADV 1488/Advice No. 23-02)
Amortization of the Residential Rate Mitigation deferral.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Northwest Natural's (NW Natural, NWN, or Company) Advice No. 23-02, which proposes to amortize the rate mitigation deferral generated from the winter rate credit for residential customers during the period November 1, 2022 through March 14, 2023, effective for service on and after March 15, 2023, with less than statutory notice (LSN).

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's request to collect the deferred revenues (amortize) from residential customers through a surcharge from March 15, 2023 through October 31, 2023.

Applicable Law

ORS 757.205 requires public utilities file to all rates, rules, and charges with the Commission.

OAR 860-022-0025 illustrates energy utility requirements for filing tariffs or changes to rate schedules.

Analysis

Background

NW Natural implemented the temporary bill credit program for residential customers served under Schedule 2 for the period November 1, 2022 through March 14, 2023, to mitigate the combined bill impact from the rate changes associated with the purchased gas adjustment (PGA) and base rate increases from UG 435. NW Natural deferred a portion of a rate increase that was effective last November during the winter heating season through these credits, with the deferred bill credit monies proposed to be amortized (at issue in this filing) during the period March 15, 2023 through October 31, 2023.¹

Cost Recovery and Proposed Changes

The Company generated a regulatory asset with the credit included in rates effective November 1, 2022 through March 14, 2023.² As per Commission Order No. 22-425, NW Natural accrued interest at the Company's actual cost of short-term debt during the deferral and amortization periods, rather than at the Company's authorized ROE and the modified blended treasury rate (MBT) rate. The Company would not accrue interest at its authorized rate of return while the credit is in place but rather will use the short-term debt cost, which is of benefit to customers since the former is higher than the latter.

The effect of this new tariff adjustment schedule is to increase the Company's annual revenues by \$29,834,050. The monthly bill of the average residential customers using 30.8 therms during the amortization phase will see an average increase of \$6.73. Given that the new rate with the deferral amortization goes into effect on March 15, 2023, which was less than thirty days from the filing date, NWN has also included a waiver for LSN with this current filing.

Staff Review

Staff has reviewed the filing, associated work papers, and engaged in discussions with the Company.

Application of February Optimization Credits

Under Special Condition 2 of Schedules 185 and 186, optimization credits are applied to bills for commercial, industrial, and residential customers in February of each year. As

¹ The Company's temporary winter bill credit was docketed as UG 459 and approved in Commission Order No. 22-425.

² The Company estimated likely usage for the remaining time period through March 14, 2023, and included those amounts in the calculation of the rate surcharge.

docketed in ADV 1473/Advice No. 22-24, the February optimization credits will be placed into an interest-bearing account for use as an offset to NW Natural's amortization of the rate mitigation credit given to residential customers. Residential customers will therefore not receive the customer-specific credits on their February 2023 bills but will instead experience a reduction to the deferral that will be amortized from March 15, 2023. The application of the optimization credits was discussed in Staff Report on UG 459 during the Special Public Meeting on October 25, 2022. The \$13,397,873 optimization credits will offset the total deferral balance to be collected from customers, with the amortized amount being \$14,496,663.³

Intra-Class Subsidy Issues

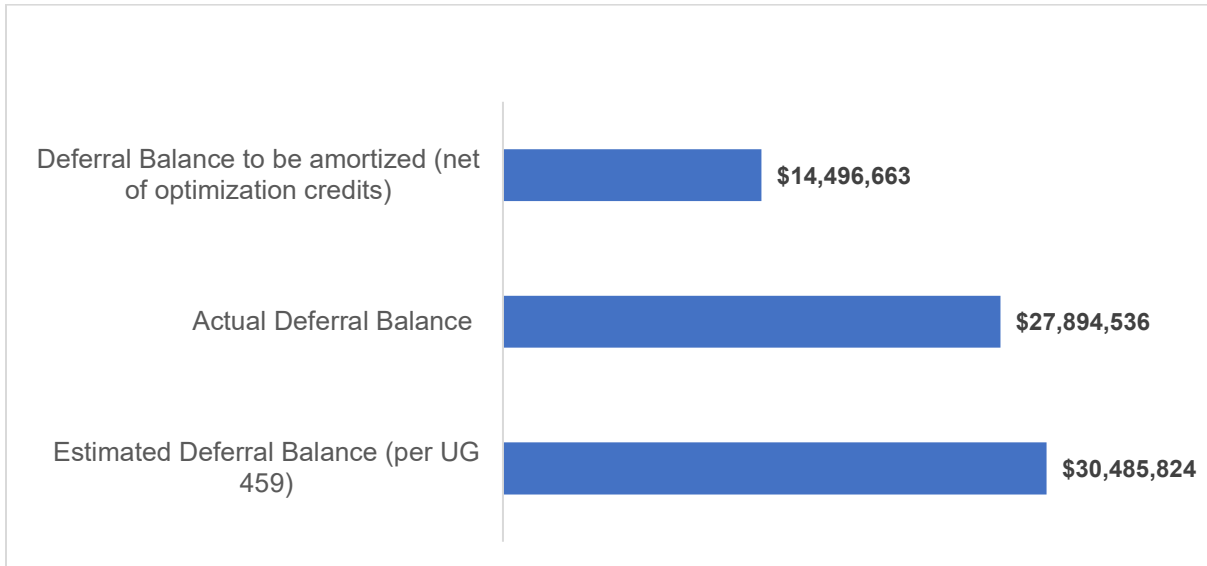
Staff report on UG 459 discussed cross-subsidization issues with a mismatch between groups who save money in the deferral accrual phase when bill credits are in place and groups who pay more in the amortization period. The report noted that space-heating users as the largest group would have used more natural gas with the bill credits in place but used less in months when the deferred revenues will be collected. The groups that will continue to use gas from mid-March through October are the water-heating users and cooking users, and these groups will bear the majority of costs during the amortization phase. While Staff had supported the mitigation credits, Staff had identified these concerns in UG 459 and considered the implementation of mitigation credits as a policy call. Staff reiterates that these issues will continue to be present when the deferred revenues will be collected.

However, Staff highlights some key issues. Firstly, NW Natural's use of the optimization credits to offset the deferral balance can reduce the harm discussed above regarding a potential mismatch between the charges deferred for low-use customers and those ultimately paid by low-use customers. A reduction in the deferral balance net of the optimization credits can somewhat benefit the non-space users. Secondly, the actual deferral balance is lower than Company forecast, driven by lower customer usage in November.⁴ The table below shows the estimated deferral balance, the actual balance and the balance that will be amortized from customers (\$14,496,663). Finally, the Company indicated that the use of optimization credits has lowered the actual rate per therm to be collected from customers than what was estimated in UG 459.

³ From Company workbooks.

⁴ From Company-provided numbers.

Table 1 – Residential Rate Mitigation Deferral Balance



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

PROPOSED COMMISSION MOTION:

Approve NW Natural's request to amortize the rate mitigation deferral generated from the winter rate credit for residential customers during the period November 1, 2022 through March 14, 2023, through a rate surcharge effective for service on and after March 15, 2023, with less than statutory notice.