ITEM NO. CA16

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: October 26, 2023

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ____**November 1, 2023**____

DATE: October 4, 2023

TO: Public Utility Commission

FROM: Bret Stevens

THROUGH: Bryan Conway, Marc Hellman, Anna Kim, and Rawleigh White **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UG 476/Advice No. 23-09)
Revises Schedule 190, Decoupling Mechanism.

STAFF RECOMMENDATION:

Staff recommends approval of Northwest Natural Gas Company's (NW Natural, NWN, or Company) Advice No. 23-09, revising its Schedule 190 rates to reflect the amortization of certain non-gas cost deferred accounts relating to Distribution Margin Normalization (DMN) for service rendered on and after November 1, 2023.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's Advice No. 23-09, revising its Schedule 190 rates to reflect amortization of deferrals tracked through its DMN mechanism.

Applicable Law

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.

ORS 757.259(4) states that the Commission may authorize deferrals under subsection (2) 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.

The Commission may approve tariff changes if they are deemed to be fair, just, and reasonable. ORS 757.210. Tariff revisions may be made by filing revised sheets with the information required under the Commission's administrative rules, including OAR 860-022-0025. OAR 860-022-0025 requires that revised tariff filings include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.

ORS 757.262 authorizes the Commission to set rates to encourage acquisition of cost-effective conservation resources.

Commission Order No. 08-263, modified by Order No. 10-279, sets out the interest rate to use for deferral accounts and the interest rate to use when such amounts are amortized.

On September 12, 2002, the Commission issued Order No. 02-634, adopting a Stipulation introduced by NW Natural, 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.

On October 26, 2012, the Commission issued Order No. 12-408, which adopted a Stipulation signed by the Parties to Docket No. UG 221, wherein the Parties agreed the decoupling mechanism should continue. This stipulation included a number of changes to the mechanism, including the removal of the baseline usage elasticity adjustment.

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."

On October 26, 2018, in Order No. 18-419, the Commission adopted a Stipulation signed by the Parties to Docket No. UG 344, wherein it was agreed that it is appropriate to administer decoupling for NW Natural's commercial customer class on a rate schedule specific basis (Rate Schedules 3 and 31) instead of on a combined basis.

Analysis

Background
The decoupling mechanism was authorized by the Commission to enable utilities to defer for later recovery the difference between actual distribution margin per residential customer and per commercial customer and the margin to be collected from each of these two customer groups based on “normal” consumption. This deferral is an integral part of the Company’s decoupling mechanism. The last deferral reauthorization for decoupling was approved in UM 1027 in Order No. 23-503 on December 28, 2022, for the 12-month period beginning November 1, 2022.

Docket No. UG 435, the Company’s most recently completed general rate case, established the levels of “normal” consumption. 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 its fixed costs. If customers consume more gas than predicted the Company may recover more than its fixed costs. The magnitude of this incremental or decremental recovery is based how much actual consumption deviates from predicted consumption. The difference between actual use and expected use per customer has two components: weather-related and non-weather-related. NW Natural addresses non-weather-related differences through its DMN mechanism.

In UG 435, NWN agreed to provide use per customer data for both existing and new customers in their next rate case. This was done to determine whether new customers have significantly different consumption levels, and thus should have a differentiated use per customer for the purposes of decoupling. This agreement does not yet affect this filing.

The DMN mechanism tracks a portion of the under-collection 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 Commission has decided that in the case of amortization of the requested deferral, which is a component of an automatic adjustment clause, no earnings test or sharing is required.

The deferral is tracked separately for Schedule 2, Schedule 3, and Schedule 31 customers on a monthly basis and totaled at the end of the year. As the amount of the deferral is calculated in an identical manner for each month and customer type, Staff has outlined the calculation performed for April 2023 for residential customers in order to generally illustrate the deferral calculation in Table 1.

Table 1. June 2023 Residential Deferral Calculation

Baseline Usage per Customer	20.1
x Customers in month	636,785
= Baseline Total Usage	12,799,379
- Decoupling Period Actual Use Normalized	10,239,340
= Variance	2,560,039
+ Allowed Margin Rate per Therm	$0.68
= Deferred revenue for June 2023	$1,750,759

The Company has demonstrated that from July 2022 to June 2023, it under-collected revenue totaling $1,025,244 from Schedule 2 customers, over-collected revenue totaling $8,883,361 from Schedule 3 customers, and over-collected revenue totaling $425,525 from Schedule 31 customers. The amortization of decoupling-related deferred revenue will impact each customer type as detailed below.

Schedule 2- Residential
The current filing proposes a 0.56 cents per therm surcharge for residential customers, representing a 1.8 percent increase in residential rates as the current decoupling rate rebate of roughly 2.3 cents.

The rate is designed to collect $2,408,297 from residential customers assuming average usage. As illustrated in Table 2, this is calculated as the sum of the $1,025,244 deferred residential customer revenue; plus the forecasted estimated balance in the amortization account of $1,278,029; plus the forecasted estimated interest for the deferral and amortization account of $39,416; plus the estimated interest during amortization of $65,607.

Schedule 3 - Basic Firm Sales Service Non-Residential

The current filing proposes a 4.5 cents per therm credit for Schedule 3 customers, representing a 0.5 percent decrease in Schedule 3 rates. The rate is designed to refund $8,214,336 to Schedule 3 customers. This is calculated as the sum of the ($8,883,361) deferred Schedule 3 customer revenue; plus the forecasted estimated balance in the amortization account of $1,031,092; plus the forecasted estimated interest for the deferral and amortization account of ($198,294); plus the estimated interest during amortization of ($223,774).

Schedule 31 - Non-Residential Firm Sales and Firm Transportation Service
The current filing proposes a 1.6 cents per therm credit for Schedule 31 customers, representing a one percent increase in Schedule 31 rates as the current decoupling rate is roughly one cent per therm lower than NWN's proposed rate.

The rate is designed to refund ($346,620) to Schedule 31 customers. This is calculated as the sum of the ($425,525) deferred Schedule 31 customer revenue; plus the forecasted estimated balance in the amortization account of $97,151; plus the forecasted estimated interest for the deferral and amortization account of ($8,802); plus the estimated interest during amortization of ($9,443).

A summary of all of the aforementioned adjustments is given below in Table 2.

Table 2. Surcharge Rate Decomposition

	Schedule 2	Schedule 3	Schedule 31
June 2023 Deferral/Amortization Balances	$1,025,244	($8,883,361)	($425,525)
+ July-October Estimated Activity	$1,278,029	$1,091,092	$97,151
+ July-October Estimated Interest	$39,416	($198,294)	($8,802)
+ Estimated Interest during Amortization	$65,607	($223,774)	($9,443)
= Total Surcharge/(Rebate) Revenue	$2,408,297	($8,214,337)	($346,620)
÷ Forecasted Therm sales in amortization period	425,261,320	180,723,276	22,069,360
= Surcharge/(Rebate) (dollars per therm)	$.0056	($.045)	($0.016)

Prudence Review
Staff reviewed 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 Docket No. UG 435, and the weather normalized use per customer. The deferral balance accrues interest at 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 by the beginning of month deferral balance plus one-half of the new current month deferral. Staff reviewed the calculations of interest for both the deferral and amortization period.

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. An earnings review is not undertaken for this amortization.

Conclusion

Staff has reviewed the rates included in this filing and finds that the Company has accurately implemented the DMN deferral and amortization mechanism. Staff recommends approval of NW Natural's Advice No. 23-09 relating to its Schedule 190 rates, which amortizes certain non-gas cost deferred accounts relating to the DMN, for service rendered on and after November 1, 2023. The Company has reviewed this memo and agrees with its content.

The Company has reviewed a draft of the memo and voiced no concerns.

PROPOSED COMMISSION MOTION:

Approve NW Natural's Advice No. 23-09 relating to its Schedule 190, revising rates to reflect the amortization of certain non-gas cost deferred accounts relating to DMN, for service rendered on and after November 1, 2023.