ITEM NO. CA8

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 18, 2016

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __**November 1, 2016**__

DATE: October 6, 2016

TO: Public Utility Commission

FROM: Abdoulaye Barry

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1027(15)) Reauthorization to defer refunds or collections of Distribution Margin.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Northwest Natural Gas Company's (NW Natural or Company) application for an authorization to defer refunds or collections of Distribution Margin for the 12-month period beginning November 1, 2016.

DISCUSSION:

Issue
Whether the Commission should reauthorize NW Natural to defer with interest the difference between: (1) the actual distribution margin per residential and commercial customer based on "normal" consumption and (2) the amount that is actually collected from those customers.

Applicable Law
The decoupling mechanism has been approved by the Commission to enable utilities to recover distribution fixed costs through rates and encourage energy conservation while minimizing the frequency of rate changes and the fluctuation of rate levels. NW Natural requests this deferral related to its decoupling mechanism in accordance with ORS 757.259, ORS 757.262, and OAR 860-030-0035.

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. With some exceptions, a company's amortization of amounts deferred under ORS 757.259(5) cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. *See* ORS 757.259(6). Commission Order No. 08-263 sets out the applicable interest rates to use for deferral accounts and the rates to use when such amounts are amortized.

The Commission previously approved this deferral most recently in its Order No. 15-336.

Discussion and Analysis

Description of Expense
The expense subject to deferral is the difference between actual distribution margin per residential and commercial customer based on "normal" consumption, and what is actually collected from those customers. "Normal" consumption was established in the Company's last general rate case, UG 221.

Reason for Deferral
The decoupling mechanism was authorized by the Commission to enable utilities to defer for later recovery the difference between actual distribution margin per residential and commercial customer and the margin to be collected from residential and commercial customers based on "normal" consumption. This deferral is an integral part of the Company's decoupling mechanism. Without the deferral, the mechanism could not function as intended.

Proposed Accounting
The Company proposes to continue deferring distribution margin differences to a sub-account of FERC Account 186 for subsequent refund to, or collection from, customers. In the absence of an authorization by the Commission to use the deferred accounting treatment, the distribution margin differences would be recorded as utility operating revenue in FERC Account 400.

Estimated Deferrals in Authorization Period
NW Natural is unable to estimate what amounts will be recorded during the upcoming deferral period because the amounts are dependent upon volume variance resulting from the actual price and conservation responses.

Information Related to Future Amortization
- Earnings Review – Pursuant to ORS 757.210, an earnings review will not be required for the amortization of the margin distribution variances as these

differences can be recovered under an automatic adjustment clause. However, in the future the Commission could exercise its discretion and require an earnings review.

- Prudence Review – Prior to amortization, a prudence review will be conducted. The review should also include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – No sharing has been required as this mechanism allows deferral of refunds or collections at 100 percent.
- Rate Spread/Design – The distribution margin differences that have been correctly accounted for should be allocated between residential and commercial customers based on the guidelines established by the mechanism.
- 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 the review of NW Natural's application, Staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259. Further, the Company's application for reauthorization of deferred accounting meets the requirements related to the establishment of the decoupling mechanism, as well as the requirements of ORS 757.259 and OARS 860-027-0300.

PROPOSED COMMISSION MOTION:

Approve NW Natural's application for reauthorization of deferral accounting for gas costs differences associated with the PGA mechanism for the 12-month period beginning November 1, 2016.