

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: September 20, 2022**

**REGULAR**  **CONSENT**  **EFFECTIVE DATE** November 1, 2021

**DATE:** September 12, 2022

**TO:** Public Utility Commission

**FROM:** Steve Storm

**THROUGH:** Bryan Conway and Marc Hellman **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UM 1027(20))  
Reauthorization to defer refunds or collections of Distribution Margin.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Northwest Natural's (NW Natural or Company) application for reauthorization to defer refunds or collections of Distribution Margin for a 12-month period beginning November 1, 2021.<sup>1</sup>

**DISCUSSION:**

Issue

Whether the Commission should reauthorize NW Natural's deferral of the difference between: (1) distribution margin amounts per residential customer, and per small (Rate Schedule 3) and mid-sized (Rate Schedule 31 Sales) commercial customer based on the "normal" consumption level for each group, and (2) distribution margin amounts per customer that are actually collected from these two customer groups.<sup>2</sup>

Applicable Rule and Law

The Commission has previously approved NW Natural's decoupling mechanism for recovery of distribution fixed costs through rates, serving to mitigate disincentives regarding energy conservation while minimizing the frequency of rate changes and the

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<sup>1</sup> This filing was submitted by NW Natural on September 30, 2021.

<sup>2</sup> The per customer differences are multiplied by the number of customers in each group to arrive at the dollar amounts to be deferred.

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 860-027-0300.

ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. ORS 757.262 provides for Commission authorization of rates for the protection to a utility from reduction of short-term earnings that may result from implementation of policies designed to encourage the acquisition of cost-effective conservation resources. OAR 860-027-0300 governs the use of deferred accounting by energy and large telecommunications utilities.

NW Natural's decoupling mechanism was first approved in 2002, by Order No. 02-834. It was later modified in Order No. 05-934, and extended by Order No. 07-426. In Order No. 12-408, Appendix B at 3 (Docket No. UG 221), continued use of the decoupling mechanism was approved with some changes. Commission approval of this deferral was most recently granted by Order No. 20-442.

## Analysis

### *Description of Expense or Revenue*

The expense proposed for deferral is the difference between the actual distribution margin per residential and per commercial customer<sup>3</sup> based on respective "normal" consumption levels and amounts actually collected from those customers. Docket No. UG 388,<sup>4</sup> the Company's most recently completed general rate case, established the levels of "normal" consumption.

### *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 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.

### *Proposed Accounting*

NW Natural proposes to continue deferring distribution margin differences to a subaccount of FERC Account 186 for subsequent refund to, or collection from, customers. In the absence of an authorization by the Commission to use deferred

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<sup>3</sup> Commercial customers in NW Natural's Rate Schedule 3 and 31 Sales only.

<sup>4</sup> NW Natural's application was filed on September 30, 2021, which was prior to the filing of the Company's general rate case docketed as UE 435.

accounting treatment, the Distribution Margin differences would be recorded as utility operating revenue in FERC Account 400.<sup>5</sup>

*Estimated Deferrals in Authorization Period*

NW Natural asserts it cannot estimate what amounts will be recorded during the upcoming deferral period, because the amounts are dependent on customer usage.<sup>6</sup>

*Information Related to Future Amortization*

- Earnings Review – ORS 757.259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e). Because the requested deferral is a component of an automatic adjustment clause, there is no earnings test required. However, in the future, the Commission could exercise its discretion and require an earnings review. Staff does not propose any application of an earnings test due to this being a decoupling mechanism.
- Prudence Review – A prudence review will be conducted prior to amortization. The review should include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – No sharing will be required as this mechanism allows deferral of refunds or collections at 100 percent.
- Rate Spread/Design – The correctly accounted for distribution margin differences are to 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 overall average impact on customer rates resulting from deferral amortizations under ORS 757.259. The three percent test limits the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding calendar year.

Conclusion

Based on 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 meets the requirements related to the establishment of the

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<sup>5</sup> Page 3 of NW Natural's application.

<sup>6</sup> Page 3 of NW Natural's application.

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decoupling mechanism, as well as the requirements of ORS 757.259, ORS 757.262, and OAR 860-027-0300.

**PROPOSED COMMISSION MOTION:**

Approve NW Natural's application for reauthorization to defer refunds or collections of Distribution Margin for a 12-month period beginning November 1, 2021.

NWN UM 1027(20) Deferral Distribution Margin