

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 17, 2020**

REGULAR **CONSENT** **EFFECTIVE DATE** November 1, 2020

DATE: November 9, 2020

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 1027(19))
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 the 12-month period beginning November 1, 2020.

DISCUSSION:

Issue

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

Applicable Rule and 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 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. OAR 860-027-0300 is the Commission's rule governing 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. Previous approval of this deferral was most recently granted by Order No. 19-374.

Analysis

Description of Expense or Revenue

The expense proposed for deferral is the difference between the 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, Docket No. UG 344.

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.

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 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 – 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 this deferral is 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.
- 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 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 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 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 meets the requirements related to the establishment of the decoupling mechanism, as well as the requirements of ORS 757.259 and OAR 860-027-0300.

PROPOSED COMMISSION MOTION:

Approve NW Natural's application for reauthorization to defer refunds or collections of Distribution Margin for the 12-month period beginning November 1, 2020.