ITEM NO. CA16

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 27, 2022

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** _____N/A_____

DATE: December 16, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **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, NWN, or Company) application for reauthorization to defer refunds or collections of Distribution Margin for the 12-month period beginning November 1, 2022, ending October 31, 2023.

DISCUSSION

Issue

Whether the Commission should reauthorize NW Natural to defer the difference between the following: (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 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.

Analysis

Background
On October 3, 2022, NW Natural submitted a request for reauthorization to record and defer with interest, on an ongoing basis, the amount by which actual distribution margin per residential, small (rate Schedule 3) and mid-sized (rate Schedule 31 sales) commercial customers are different from the margin to be collected from residential, small and mid-sized commercial customers based on "normal" consumption, as assumed in the Company's last general rate case, UG 435, upon Commission approval.

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 435

Reason for Deferral
In accordance with the statutory authority provided by ORS 757.259 and ORS 757.262, NW Natural proposes to record and defer, with interest, the amount by which actual distribution margin per residential, small and mid-sized commercial customers are different from the margin to be collected from residential, small, and mid-sized commercial customers based on "normal" consumption.

Proposed Accounting
NW Natural proposes to continue recording deferred distribution margin differences in 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 cannot estimate what amounts will be recorded in the distribution margin normalization in that moment for the upcoming 12-month period because the amount is dependent on customer usage.

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 request 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.

The Company has reviewed this memo and agrees with Staff's recommendation.

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, 2022.