ITEM NO. CA21

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 24, 2019

REGULAR ____ CONSENT _X_ EFFECTIVE DATE ____November 1, 2019____

DATE: October 2, 2019

TO: Public Utility Commission

FROM: Brian Fjeldheim

THROUGH: Jason Eisdorfer and Marianne Gardner

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1027(18)) Reauthorization to Defer Refunds or Collections of Distribution Margin.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural or Company) request for reauthorization to defer refunds or collections of Distribution Margin for the 12-month period beginning November 1, 2019.

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 Rule or 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.

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. In OAR 860-027-0300(3) the Commission has set forth the content requirements for deferred accounting applications. OAR 860-027-0300(4) requires that a reauthorization application not be made more than 60 days prior to the expiration of the previous authorized deferral. Applications for reauthorization must include a description and explanation of the entries in the deferred account to the date of the application for reauthorization and the reason for continuation of deferred accounting. OAR 860-027-0300(6) requires that notice of the deferral application be served upon all persons that were a party to the energy utility’s last general rate case.

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

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 decoupling mechanism was approved with some changes.

The Commission previously approved renewal of this deferral, most recently in its Order No. 17-396.

<u>Analysis</u>

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. Without the deferral, the mechanism could not function as intended.

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.

From July 1, 2018 to June 30, 2019, the Company amortized an aggregate refund to customers of $8.6 million[1] and recorded an aggregate surcharge deferral of $519 thousand.[2]

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 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.

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[1] These dollar amounts include the amortization balances plus interest from July 1, 2018 to June 30, 2019. See NWN Docket No. UM 1027(18), Exhibit A, pages 5-6, column G.
[2] These dollar amounts include the deferral balances plus interest from July 1, 2018 to June 30, 2019. See NWN Docket No. UM 1027(18), Exhibit A, pages 1-4, column G.

- 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 refunds or collections of Distribution Margin for the 12-month period beginning November 1, 2019.

NWN UM 1027 (18)